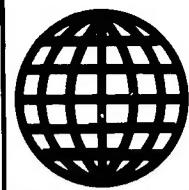
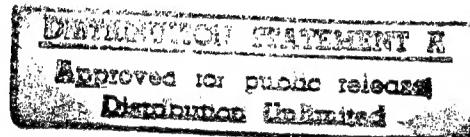


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## SMALL-SCALE ENTERPRISES

### Solving Township, Town Enterprise Fund Shortages

92CE0563A *Beijing NONGYE JINGJI WENTI /PROBLEMS OF AGRICULTURAL ECONOMY/*  
in Chinese No 5, 23 May 92 pp 28-32

[Article by Jin Jiabao (6855 1367 1404), Ma Jun (7456 7486), and Jin Guiyan (6855 6311 3543), Jingzhou Prefecture People's Bank, Jingzhou, Hubei Province: "Study of the Development and Intensification of the Township and Town Enterprise Funds Shortage and Remedies"]

[Text] As an important integral part of the socialist economy, China's township and town enterprises have mushroomed during the past 13 years of reform and opening to the outside world, becoming an important vehicle for both reform of the structure of agriculture and for the peasants joint prosperity. From the course of township and town enterprise development, we can see clearly the decisive role that the financial sector has played. The credit that the banks provided was a driving force of crucial importance in the rise of township and town enterprises. In recent years, however, as a result of the influence of the external environment and of the character of production, and the operation of township and town enterprises themselves, the township and town enterprise funds shortage has become worse and worse, posing a major stumbling block in the development of the country's township and town enterprises, and even in the normal operation of the entire national economy. Therefore, an objective and historical analysis of the development process and the factors giving rise to the township and town enterprise funds shortage to adopt workable remedies is an important task facing those engaged in economic work.

### Positive Analysis of the Development of the Township and Town Enterprise Funds Shortage

A comprehensive survey of the township and town enterprise development process shows policy ups and downs have had a fairly strong influence on the availability of funds for township and town enterprises, the shortage of funds for enterprises occurring, developing, and intensifying with changes in state policy. The experiences of township and town enterprises in Jingzhou Prefecture, Hubei Province clearly show a three part process.

(1) The Period 1978-1981 Marked the Preliminary Stage of Township and Town Enterprises During Which the Supply and Demand for Funds Was Largely in Balance Following the post-1978 rural reforms that produced the contract responsibility system, township and town enterprises began to develop as the agricultural economy took a turn for the better. However, they developed rather slowly. As of 1981, Jingzhou Prefecture had only 25,910 township and town enterprises, up 10.64 percent from

1978 for an average annual increase of only 3.4 percentage points. During this period, the rate of increase in bank inputs of funds into township and town enterprises was not very high either, growing only 18 percent between 1978 and 1981 in an annual average 6 percent increase, which was lower than the 9.8 percent average annual increase in savings. Thus, it is clear that during the three year period 1978-1981, the banks were able to supply sufficient funds to meet township and town enterprises development needs. As yet, no funds shortage existed.

### (2) High Speed Development of Township and Town Enterprises and Increased Rigidity of Demand for Funds During the 1982-1987 Period Produced an Intensification of the Township and Town Enterprise Fund Shortage

After 1982, China's economy began to change from revival to high speed development. During this period, township and town enterprises developed swiftly like a new force come suddenly to the fore. The overly rapid speed of development outstripped the capacity of the national economy to sustain it, with the result that a shortage of township and town enterprise funds began to occur and intensify. By the end of 1987, the balance of loans outstanding to township and town enterprises in Jingzhou totaled 533.57 million yuan in a 12 fold increase over 1981, but it was still difficult to satisfy township and town enterprises' development needs. Three main reasons accounted for this situation.

1. A lenient policy climate that spurred the swift development of township and town enterprises. To make the rural economy flourish and bring about a rational restructuring of rural industry, the government called for vigorous development of township and town enterprises, and it provided a fairly lenient policy and investment climate for this development. At the same time, local governments' ideas about what counted as achievements gradually took shape. Many local government regarded the number of township and town enterprises, and the amount of output value as important criteria in the evaluation of performance. They used administrative methods and command style plans to get every town, township, and village to operate enterprises. This resulted in the mindless development of township and town enterprises, and their overly rapid growth. By 1987, the number of township and town enterprises in Jingzhou Prefecture increased 7.7 fold since 1981 in an average annual 36.3 percent increase. During the same period, the output value of township and town enterprises grew 10.5 fold in an average annual 47 percent growth. This was much higher than the 18 percent average annual speed of development of GNP in Jingzhou Prefecture for the same period.

2. Funds for township and town enterprises came from a single source, which increased reliance on banks. During the period 1982-1987, banks provided 74 percent of all the capital that township and town enterprises in Jingzhou Prefecture needed for fixed assets and working capital; township and town local governments provided 12 percent as start-up funds; the enterprises themselves

raised 9 percent; and 5 percent came from other sources. During 1986 and 1987 respectively, Jingzhou Prefecture bank loans totaled 309.34 million and 519.02 million yuan respectively, which was 67 and 82 percent respectively of the funds of township and town enterprises throughout the prefecture for those years. Clearly, township and town enterprises relied primarily on banks, and their high speed growth was attributable entirely to bank credit.

3. The high speed development of township and town enterprises produced low returns, and wasted a large amount of money. The above normal speed of growth of township and town enterprises during the period 1981-1987 both promoted economic prosperity and also occasioned some problems. One problem was township and town enterprises' one-sided pursuit of high speed. They went into action without due consideration, lacked unified planning, and acted without regard for financial circumstances, market supply and demand, and the availability of funds. Second, enterprises' inputs of capital and energy were great, but returns failed to keep pace. In 1986, township and town industrial loans in Jingzhou Prefecture increased 1.3 fold over 1985, but profits and tax receipts increased only 13 percent. The amount of taxes and profits per 100 yuan, and per capita taxes and profits declined 2 percentage points. Third, the number of enterprises operating at a loss increased. In 1986, only 40 percent of the more than 220,000 township and town enterprises in Jingzhou Prefecture showed good economic returns. Six percent of all township and village enterprises lost money, up 2 percentage points from 1985. In a situation in which the amount of money available from bank credit was fixed, a decline in economic returns of township and town enterprises inevitably affected township and town enterprises' normal operation, lowered returns on the use of capital, and both wasted and tied up large amounts of capital.

**(3) Under Circumstances of Improving the Economic Environment and Rectifying the Economic Order After 1988, the Shortage of Township and Town Enterprise Funds Reached the White Heat Stage** After 1988, with the implementation and intensification of improvement of the economic environment and rectification of the economic order, the overheated economy began to cool. To optimize the structure of township and town enterprises and put them on a path of healthy, coordinated development, the state correspondingly cut back on the scale of credit for township and town enterprises. Township and town enterprises faced the grim test of a further intensification of a capital shortage under a cutback policy. Lacking sufficient accumulations of their own, some enterprises resorted to a change to other lines of production, mergers, or a production halt once the banks halted "oxygen deliveries." In 1988, there were 1.2 percent fewer township and town enterprises in Jingzhou than in 1987; in 1989, there were 1.6 fewer than in 1988; and in 1990, there were 3.97 percent fewer than in 1989. The number of staff members and workers declined 1.5, 1.8, and 2.3 percent respectively during those three

years, and evidence points to the prospect of further cutbacks. Estimates based on our analysis show that for the first half of 1991 alone, township and town enterprises experienced a 170 million yuan funds shortfall. Forecasts for the next three years call for a further intensification of the township and town enterprise funds shortage as a result of government retrenchment policies and banks lack of flexibility in lending.

#### **Manifestations of the Intensification of Township and Town Enterprise Capital Shortage**

The main source of funds for township and town enterprises was bank credit, but with the development of township and town enterprises, enterprise demand for funds increasingly outstripped the ability of township and town banks to supply them. This showed up primarily in four areas.

**(1) The Insufficiency of Township and Town Enterprises' Own Funds Versus the Heavy Credit Burden of Banks** Because of the incompleteness of the profit distribution system, and the lack of both a needed self-accumulation mechanism and an external supervisory and limiting mechanism, many enterprises failed to devote sufficient attention to either the accumulation of funds themselves or the augmentation of their working capital in the course of their development. They depended primarily on bank credit for their operation. During the period 1986-1990, bank credit to township and town enterprises in Jingzhou Prefecture accounted for 63, 81, 83, 84, and 72 percent respectively of all working capital. The weakness of the township and town enterprise self-accumulation mechanism and the shortage of their own funds resulted in a serious insufficiency of reserve strength for township and town enterprise development. Their development fluctuated as government policy and the money supply became tight or loose. Development contained a strong element of inconsistency and unpredictability. In addition, township and town enterprises lack of their own funds also added to the banks credit burdens. During the period 1980-1988, the credit balance of banks and credit cooperatives in Jingzhou Prefecture increased six fold, and the credit balance of township and town enterprises increased more than 10 fold in an average annual 33.55 percent increase. Township and town enterprise credit as a percentage of all rural credit rose from 7 percent in 1981 to 24 percent in 1988. For the banks, the rigid year-by-year expansion of township and town enterprises needs for funds meant an ever heavier burden.

**(2) The Sluggishness of Township and Town Enterprises Savings Versus the Insufficient Increase in the Amount of Bank Credit** The excess amounts of the "three funds" used, and blockage in the cycling of funds were difficulties that township and town enterprises universally faced. A representative survey of 15 major township and town enterprises in Jiangling County showed 2.25 million yuan as being tied up in these enterprises' products and commodities delivered since 1990. This was 54

percent of their quota of working capital, or 14 percentage points more than the maximum limit of 40 percent that the banks set. Accounts receivable stood at 2.47 million yuan, 4.6 percentage points higher than the 30 percent maximum. The excess use of the "three funds" seriously impaired the benign cycling of funds. As a result, large amounts of funds had to be withdrawn from the cycle, thereby slowing turnover speed and lowering returns from the use of funds. In 1990, the turnover speed of working capital in 15 township and town enterprises was only 0.8 times, and only 0.1 times in the slowest instances. Rigidity in the amount of funds available to township and town enterprises, and a decline in returns from their use increased enterprises abnormal demand for funds. At the same time, however, because of their limited scale of credit and sources of capital, banks could not appreciably increase loans to township and town enterprises. They found it difficult to fill the increasingly widening township and town enterprises funds gap. During the period 1986-1990, the funds gap for township and town enterprises in Jingzhou Prefecture showed a year-by-year increase amounting to 50 million, 65 million, 90 million, 120 million, and 130 million yuan respectively. The every widening funds gap stretched ever tighter the string between bank credit supply and enterprises credit demand.

**(3) The Dissipation of Township and Town Enterprise Funds Versus Obstruction in the Cycling of Bank Credit Funds** For various reasons, a serious dissipation occurred in the use of township and town enterprises' funds, which was manifested in the following four ways: First was fiscal dissipation. To balance revenues and expenditures, local government financial organs set very high the amount of profits that enterprises were to turn over to them. A random sampling of some township and town enterprises showed that most township and town enterprises paid between 70 and 80 percent of their earnings to the state, only a very small portion remaining for their own accumulation. Second was the dissipation of consumption funds. Because financial control over township and town enterprises was fairly sloppy, consumption expenditures such as money spent for entertainment, awards, entertaining guests and the giving of gifts were frequently difficult to control. Such expenditures accounted for a substantial percentage of the profits that township and town enterprises retained. Third was dissipation through assessments made on funds that enterprises raised. Since it is the local government that runs township and town enterprises, these enterprises became a "small treasury" for the local government. When money was needed to repair roads or build bridges, or when funds had to be raised to operate schools, local governments put out their hands to township and town enterprises when enough money was not otherwise available. Fourth was dissipation through individual debt. Statistics from a survey of a number of township and town enterprises showed that individual debts owing to many enterprises accounted for a fairly large percentage of their total funds. In some cases, more than half of the staff members and workers owed money

to the enterprise; thus, a large amount of money was tied up for no good reason. For township and town enterprises, which relied primarily on bank loans to maintain production and operations, dissipation of funds in the foregoing four ways was actually a dissipation of bank credit funds. Huge sums of money oozed away or were diverted to other purposes through various channels, and their absence from circulation seriously damaged enterprises' economic returns. It also meant that large amounts of bank capital lay idle and stagnant causing banks a serious operating crisis. Comparison of 1989 with 1980 shows an increase from 25.31 yuan to 67.59 yuan in the amount of bank credit per 100 yuan of working capital that township and town enterprises in Jingzhou Prefecture used, and an increase from 21 yuan to 97 yuan of bank credit per 100 yuan of output value. Bank loans to township and town enterprises throughout the prefecture increased from 48.57 million to 554.71 million yuan, and the number of loans that were overdue and tying up capital rose from 17 to 57 percent.

#### The Dual Impediments Faced in the Management of Township and Town Enterprises and the Use of Funds in China at the Present Time

With the further intensification of reform and opening to the outside world at the present time, development of the nation's township and town enterprises faces both new opportunities and new challenges. Some old management systems used in township and town enterprises are increasingly unsuited to the needs of further development. The cycling of funds in township and town enterprises is facing some deep-rooted impediments.

**(1) The Dual Impediments of Township and Town Enterprise Management Becoming More Administrative and the Duality of Operating Goals** Since the date they were born, China's township and town enterprises have relied markedly on local governments, and have been "under protection" of local governments. This "protection" has resulted in a marked "administrative" character in the country's township and town enterprises, which has brought serious consequences in its wake. These are manifested in the following main ways: First, the government administrative nature of management has led to local governments wanting enterprises that develop at high speed and that plunge ahead mindlessly in the absence of centralized planning. Second, management of an administrative nature has resulted in a short term attitude in township and town enterprises management of production, an overemphasis on output value, and a hiatus between output value and returns. Third, the administrative nature of management has led to a lack of democracy in the selection of township and town enterprise management personnel, and relatively low quality. At the same time, township and town enterprises also face two difficult choices in the duality of operating goals. As independently accounting entities responsible for their own profits and losses, enterprises must regard the optimization of returns as their operating goal, while as local government grassroots economic units, township

and town enterprises must also share some local government responsibilities, supporting the development of existing townships and towns. Should conflicts occur between township and town enterprises own economic goals and the local government's development goals, usually the enterprises' interests are sacrificed to assure realization of township and town development goals. Consequently, full authority to act on their own authority and to make their own decisions is missing in township and town enterprise production and operation, and township and town enterprises own interests cannot be completely guaranteed.

**(2) The Dual Impediments of a Single Main Structure for Investment and Weak Bank Management Methods** Since a financial market mechanism is not yet fully developed in the preliminary stage of China's socialism, enterprises rely mostly on banks for the supply of needed funds. In a situation in which there is only a single main structure for investment, for banks to give enterprises the funds they need to engage in production is perfectly correct and justified. Numerous enterprises that lack a self-restraint mechanism do not take into account investment input-output benefit; they are unconcerned about a large credit burden; and they do not try to find out who is to blame for waste. Consequently, such enterprises have only an innate desire to expand the use of funds without any self-restraint and balancing mechanism or external pressure. Under the present system, although banks are the main suppliers of funds to enterprises, banks themselves lack corresponding authority and regulation methods. They can only serve as an economic unit that exercises indirect control over enterprises. Their methods for controlling enterprises' funds are weak and ineffective. This is demonstrated primarily in three ways: First is in the direction of investment. As a result of administrative interference, "the government orders the meal, but the banks pay." Second, in enterprises' management of production, banks lack means for controlling enterprises. They lack the means to prevent enterprises from reporting a profit when they are actually losing money, not reporting costs truthfully, and skimming away working capital for diversion to other purposes. Third, in enterprises' distribution of income, government falsifies revenues, losses are charged to account, banks advance payment, and the government lives off of the banks. In township and town enterprises use of funds, enterprises own weak restraints and the ineffectiveness of bank control methods seriously impair the benign cycling of funds thereby intensifying the funds shortage.

**(3) The Dual Impediments of the Short-Term Behavior of Operators and the Limitations of the Objective Environment** As a result of shortcomings in the township and town enterprise management system and the effects of the benefits mechanism on operators, short-term operating behavior exists to a serious extent in internal management. For example, in the production and operations process, some township and town enterprises did not withhold or withheld too little for the fixed assets depreciation fund and for the major repairs fund. They

cannibalized equipment and consumed capital to increase profits. Some business enterprises emphasized consumption to the neglect of accumulations in the distribution of profits, not adding to or not adding enough to their working capital, relying instead on bank credit to sustain production. The objective external environment also exerts a certain amount of restraint and effect. First is the limitation on capital. Although the state urges the development of township and town enterprises, since capital is lacking, it must cutback and limit the scale of credit going to township and town enterprises, and reduce the supply of capital for township and town enterprises to ensure that the need for capital of large and medium size state-owned enterprises are met. Second is the limitation of material. Since township and town enterprises lack quotas for the supply of state plan goods, and raw and processed materials, they have no choice but to buy them at negotiated prices in the market. Not only are prices there expensive, but inconsistent as well. Many township enterprises are forced to go without sometimes only to face a glut at others. This adversely affects normal production. Third is difficulty in selling products. Since the state guarantees neither the supply of materials to nor the sale of products from township and town enterprises, they are left to their own devices. A very large amount of products are sold on credit, sold on commission, or sold on consignment, which cannot be guaranteed. In addition, enterprises are seriously in arrears with each other in paying for goods. Many township and town enterprises frequently sell products only to find it difficult to collect payment for them.

**(4) The Dual Impediments of the Homogenous Industrial Structure of Township and Town Enterprises and Difficulty Readjusting the Bank Credit Structure** A very large number of China's township and town enterprises began to develop during the 1982-1986 period of overheating of the economy. Because of the lack of comprehensive planning and scientific market forecasting, an abnormal situation occurred in which these enterprises "blossomed everywhere" and were "small but all inclusive." In their industrial structure and product make-up, township and town enterprises tend to be similar. This results in excessive competition in local markets on a regional scale, synchronous economic vibration, and a large scale waste of resources, funds, and manpower. Since these township and town enterprises rely heavily on the local government and banks, and co-exist with them, banks face very many difficulties in readjusting any inequitable economic structure. Since township and town enterprises provide major support for the local government treasury, whenever bank readjustment of the bank credit structure touches on local interests, some local governments act without regard for the situation as a whole. They interfere in every way possible, putting obstacles in the way of structural readjustment. At the same time, however, since banks invest large amounts of money in the enterprises that are the object of their readjustment of bank credit, when the credit structure is readjusted, they have to worry that once the "oxygen supply" has

been cut off, these enterprises may collapse at once and their personnel scatter making it impossible for them to recover their loans. Usually, despite their own convictions, they continue to supply oxygen to maintain enterprises in a half-alive, half-dead state. Thus, they attend to one matter only to lose sight of another; the investment of credit is dissipated; enterprises that should be closed down are not closed down; enterprises that should be protected are not protected; and readjustment that is begun cannot be sustained.

The foregoing impediments to township and town enterprise management and the use of funds are the main reasons for the intensification of the township and town enterprise funds shortage. The intensification of this funds shortage is increasingly bringing out into the open various problems that were formerly hidden. They are having an increasingly great impact on the healthy development of the entire economy. First, the intensification of the township and town enterprise funds shortage has caused a bank credit crisis. Second under the prevailing system and environment, the rigid reverse pressure mechanism that has been formed with regard to banks supplying credit, and enterprises complete dependence on banks have caused very great difficulties for banks in managing credit and normal operation; policies requiring a credit tilt are difficult to carry out; and optimization of the industrial structure is difficult. Third, the credit gap resulting from the township and town enterprise fund shortage has forced banks to carry a heavy financial burden. To plug the funds gap, banks have skimmed money from funds for the support of agriculture and for the procurement of agricultural by-products, which has intensified the money shortage in society as a whole.

#### **Building a Ternary Regulation Mechanism for Management of Township and Town Enterprise Funds**

As a result of the analysis of the township and town enterprise funds shortage, we can realize clearly that the key to township and town enterprises escaping from the vicious funds cycle and getting out of a desperate predicament lies in the establishment of management mechanism that is completely consistent with their funds use. Specifically, this means building a ternary regulation mechanism in which government, bank, and enterprise management methods are interwoven that includes township and town enterprise development plans, policy decision management, production operations management, and investment management as primary components.

Government must draw up industrial policies and township and town enterprise development policies that are in keeping with the country's circumstances, clearly providing which industries should go all out in development, which industries should be moderately developed, and which industries should have their development limited, thereby bringing about powerful macroeconomic regulation and control.

Business enterprises should emphasize returns rather than speed, and intensive operation rather than nonintensive operation. First, the township and town enterprise contract management system must be perfected to overcome enterprises' short-term behavior. Second, township and town enterprise financial administration and management must be improved to accelerate the circulation of funds. Third, reliance must be placed on science and technology to improve competitiveness.

Banks must establish and perfect a supervisory and management mechanism to improve credit fund management, thereby changing the use of enterprise funds from a vicious cycle to a benign cycle. First must be better management of credit fund inputs in accordance with national industrial policy. Inputs must be made that regulate structural optimization; inputs must be concentrated on loans for industries and products, and preference must be given to loans for science and technology. Second is bank participation in enterprise management, improving monitoring of the ways in which enterprises use funds. Third is opening new channels for financing township and town enterprises to increase the effective supply of funds.

## **POPULATION**

#### **Family Planning Laws Enforced in Shanghai**

92CE0486A *Shanghai WEN HUI BAO* in Chinese  
11 May 92 p 6

[Article by Song Jianren (1345 1696 0086) and Chen Yingchun (7115 4481 2504); "Dreams of Above-Quota Births Are Hard To Realize"]

[Text] The Dafeng County People's Court publicly tried Wang Xiang on 10 April 1992 for the sensational crime of illegally detaining seven family planning cadres. In a full courtroom, the presiding judge sentenced Wang Xiang to two years in prison for the crime of illegal detention. As opposed to his former fierce and tough overbearing arrogance, Wang Xiang stood numbly, with bowed head and tears of shame streaming slowly down his face.

Wang Xiang's life had seen traces of crime. In 1974, at the age of 21, he had been sentenced to three years in prison for raping a young girl. After finishing this sentence, he had returned to his village of Chengjiao on the outskirts of the town of Dazhongzhen in Dafeng County. Out of concern for his livelihood, the village leaders had contracted him to drive a tractor. Not only did he overfulfill his contracted duties, but he also earned a sizeable personal income. After the village had gained trust in him, it arranged for him to be responsible for collecting all of its water and electricity fees.

It was a case of the return of a prodigal son. Wang Xiang won everyone's trust, as well as the love of a girl named Gui Fang who worked for a produce company. After being married for two years, they had a bright and lovely

daughter. While Wang Xiang built a single-story tile-roofed house with five large and five small rooms in 1987, he became unhappy every time he entered his large and spacious courtyard, and particularly could not bear to lift his head when he heard his fellow workers and friends bragging about their sons. When Wang Xiang told his wife that "children are cheaper by the dozen, and I want to have a son," she asked "what if we have another daughter?" To which Wang Xiang replied angrily "then we'll have another, and not stop until we have a son. In any case, I can support them!"

When Wang's wife had a beyond-plan pregnancy at the end of 1991, the town government was very concerned, and immediately sent a cadre from the town family planning office to Wang's home. As Wang so wanted a son and had plenty of money, he had long since set aside a "special fund for above-quota births." He basically paid no attention to national family planning policy, simply wanted a son, and did not care how much he had to pay in fines.

As to Chen Jiaxiang, an assistant in the Dazhongzhen Family Planning Office, this was the 17th time he had been to Wang's home. At 0800 hours on 26 February, Chen and six other family planning cadres from units, such as the produce company and Chengjiao Village, pushed their bicycles into Wang Xiang's large courtyard. As Wang Xiang had not taken care of this "problem" on his own, other people had to figure out a way to do it for him.

When Wang Xiang saw so many people, he acted hardened and unconcerned, which sort of acting is seen routinely by comrades who do family planning work. In order to persuade Wang Xiang to change his mind, the village leader took the initiative by proposing that if Wang's wife agreed to have an abortion, the village would arrange a job for Wang in the village parking lot, send a professional nurse to perform the abortion, and pay all of the expenses.

But it became a case of give them an inch and they'll take a mile, when Wang Xiang made the following three additional demands: 1. That he be immediately granted a land requisition work quota; 2. that he be allowed to open a private tourist agency; and 3. that if these two demands were not met, the village must put him in charge of an additional 10 mu of land.

As the village leader knew very well that Wang Xiang's work demands were false, the truth being that he was making them to coerce the village into allowing him to have a son, he continued with his good-intentioned persuasion, by replying clearly that the village would agree to a private tourist agency license if it was examined, verified, and approved by the public security department, give him a preference for a land work quota in the next village land requisition, and appropriately adjust his land responsibility according to government regulations after the autumn.

But Wang Xiang persisted in demanding an immediate "verdict," which brought the "negotiations" to an impasse. At about 1030 hours, Wang Xiang put a big lock on the large iron gate that provided the only access to his courtyard, in effect taking away the freedom to come and go of the seven family planning cadres who were in his courtyard, which immediately increased the tension. At about 1100 hours, Chen Jiaxiang and the others told Wang Xiang that they would come back in the afternoon, and asked him to please open the gate and let them out. To which Wang replied fiercely that "that's easier said than done. You all might as well forget about leaving this gate until the problem has been solved!"

Then Wang Xiang began to drink. After getting drunk and eating, he ignored the repeated warnings of the family planning cadres, closed his door, and went to sleep.

At 1530 hours, the local police station received the news of this and rushed policemen to the scene. They shouted for Wang Xiang to open the gate, and asked Chen Jiaxiang and the others to tell Wang Xiang that "the comrades from the police station are here and you must open the gate immediately."

To which Wang roared back that "I won't open it! I won't open it no matter who comes!"

Both sides refused to budge for a time.

At 1630 hours, when the county procuratorate received a report on the situation from public security, the law and discipline chief prosecutor immediately rushed to the scene with two assistant prosecutors. They shouted that "we are from the procuratorate. You must immediately open the gate and release the people. We want to talk with you." To which Wang Xiang, lying on his sofa, replied "What good is it for you prosecutors to come here? I wouldn't open the gate even for God or Lao-tzu!"

When the chief prosecutor heard this, he immediately decided that this was a case that needed to be investigated and prosecuted, that he would make one more try, and that if Wang still refused to open the gate, he would have it opened by force. At almost 1800 hours, the chief prosecutor brought three law and discipline personnel and 15 public security police in two police cars to Wang Xiang's house.

At 1820 hours, the iron gate was finally forced open! The seven family planning cadres who had been detained for eight hours were finally freed.

After Wang was arrested and repeatedly indoctrinated by the prosecutors and police, he finally admitted his crime. In a letter to his wife from his jail cell, he wrote that "as I ignored the law, discipline, and national family planning policy, I have become a criminal again, for which I am very sorry. As family planning is our duty, please understand the situation, by allowing your company leaders to take you to the hospital for an abortion as soon as possible."

But Wang Xiang woke up to this too late. What his "dreams of above-quota births" left him with were long, long regrets.

## AGRICULTURE

### Agricultural Wholesale Markets: Case Studies

92CE0517A Beijing NONGYE JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMY] in Chinese No 4, 23 Apr 92 pp 2-10

[Article by Yuan Chongfa (5913 1504 3127), Agricultural Products Wholesale Markets Research Project Team: "Case Survey and Analysis of China's Agricultural Products Wholesale Markets"]

[Text] Note: This article is a comprehensive report based on individual surveys of five wholesale markets dealing most in vegetables that the Rural Research Center of the Ministry of Agriculture conducted in cooperation with the Beijing Municipal Academy of Social Sciences and Beijing Teachers College. The five markets are at Dazhong Si and Heping Li in Beijing, South Station in Shenyang, Shouguang in Shandong, and Wuwei in Gansu. [End note]

#### 1. Foreword

Practice with a commodity economy tells us that the market concept includes not only the abstract principle of exchange of equal value, but also requires organizational methods to ensure that exchange is at equal value, and so on.

Comparison of the contemporary commodity economy with the previous commodity exchange shows two fairly distinct features: One is the huge amount of commodity exchange and the huge area covered. Products generally have to go through several middlemen to get from the producers to the hands of consumers. Connecting these middlemen is a complex and systematic exchange system. Second is government intervention in commodity exchange. Government intervention has two goals: (1) Maintenance of the principles of fair competition and exchange of equal value; and (2) to provide a certain amount of protection of the interests of both producers and consumers when the difference between supply and demand becomes too great as a means of keeping production relatively stable and society tranquil. Attainment of these goals of government intervention also requires reliance on a fully developed and effective market organizational system.

Since the advent of reform, China's rural economy has gradually become a commodity economy. In the process of moving forward with this process of economic change, our guiding thought has emphasized doing all possible to introduce the principle of exchange of equal value; and policies have focused on doing all possible to reduce plan procurement and marketing of agricultural products. Now that circulation of agricultural products is

becoming increasingly free of restrictions and more market regulated, systematic institutional arrangements are needed to give impetus to healthy development of a market organizational system. Today, given the lack of guidance, most market exchange is fairly spontaneous. Markets are not very transparent, much friction exists between the various segments of the marketing chain, and no effective supply and demand checks and balances mechanism exists. Consequently, markets fluctuate too frequently and too greatly. These problems frequently nullify a substantial amount of the positive effects of market regulation, thereby undermining people's confidence in market regulation and damaging the intensification of reform. Therefore, now that most agricultural products are no longer covered by plan procurement and marketing, an organizational system that effectively stimulates market exchange, ensures fair exchange, and ensures state macroeconomic regulation and control has become a priority task in reform of agricultural product circulation.

Two different organizational systems have appeared in the agricultural products circulation field in China today. One is production and marketing joint ventures, and the other is agricultural products wholesale markets. The wholesale markets are socialized markets. They are places in which all operating entities compete fairly. Buyers and sellers come together here for the one-time buying and selling of products. Fairness in buying and selling depends entirely on market self-regulation and the supervision and control of government agencies founded on checks and balances in many regards. In both the spot buying and selling of goods and futures trading, the goal of the wholesale markets is to assure fairness in each transaction; consequently, for a fairly long time to come, the amount of fluctuation is bound to be greater than in the internal exchange of joint production and marketing ventures. The relative stability of markets depends not only on the degree to which those engaged in trading develop their activities, and the degree to which self-regulation is perfected, but also on the extent of government intervention, regulation, and control.

The agricultural by-products wholesale markets that are developing today are of two kinds: One is spontaneously developing wholesale markets founded on the country fair trade in cities and the countryside. The other is wholesale markets that government units concerned have set up through standard plan. All of the standard wholesale markets were formally established with government approval. So-called standard does not mean that such markets take the country's wholesale market laws and regulations as a standard (China has no such laws and regulations at the present time), but rather that most are run in accordance with trial regulations prescribed jointly by individual control agencies and experts that are based on existing regulations and operating methods used in foreign wholesale markets. The purpose of building this kind of wholesale markets is reform of the previous agricultural products procurement and marketing system in which the principals were

largely state-owned distributing companies or state-owned processing enterprises. These markets have only just been established, so the volume of their transactions is very small. Envisioned social benefits have yet to be fully realized.

The foregoing two kinds of wholesale markets differ markedly: 1) The spontaneously formed wholesale markets exchange a wide range of products, both fresh and dried items, while the standard markets are currently limited to the buying and selling of grain, meats, and oil-bearing crops. 2) For the most part, the spontaneously formed markets engage in spot exchange while the standard markets mostly concluded deals on the basis of samples rather than actual goods on hand. They are business places for the buying and selling of commodities. 3) Their are virtually no restrictions on either kinds of goods or prices of goods exchanged in the spontaneously formed markets; mostly, the state does not interfere directly in their activities. In the standard markets, however, products traded have not yet been completely removed from government restraints. 4) In the spontaneously formed markets, any business entity may trade, but in the standard markets a membership system generally applies, only member units being permitted to trade. All of the members today are state-owned commercial corporations or enterprises formed when the plan procurement and marketing system was in existence. There are very few members from society at large. 5) The spontaneously formed wholesale markets have a broad and solid social and economic foundation and economic environment, but they lack guidance and standards. On the other hand, the standard wholesale markets have systematic and standard management regulations; however, they lack the most basic conditions for the development of principal business entities and a mechanism for pricing products.

In short, both markets that combine production with marketing and the wholesale business, and both indigenous wholesale markets and foreign-style wholesale markets are an inevitable outgrowth of the gradual development of a commodity economy. All are exploring market organizational forms for China's planned commodity economy. Moreover, in the organization of most markets, wholesale markets are places that best express fair competition, and they are places where prices originate. In studying market organizational patterns, wholesale markets should be the starting point. Given China's current circumstances, spontaneously developed wholesale markets particularly merit attention and analysis. This article will use an investigation of five separate cases as a basis for a comprehensive description and a concise analysis of agricultural products retail markets.

## 2. An Overview of Wholesale Markets

**Great Development of China's Agricultural Products Wholesale Markets in Terms of Numbers** As of the end of 1990, agricultural products wholesale markets under control of the industrial and commercial system totaled 1,340 in number for a 5.7 fold increase over 1983. They

could be found in urban areas of every province in the country. In 1986, the ratio of rural wholesale markets to city wholesale markets was 1.75:1. In 1990, the ratio was 1.45:1. It is not difficult to see that wholesale markets developed in production areas earlier than in urban marketing areas. The former spurred development of the latter. The foregoing wholesale markets spontaneously evolved out of the country fair trade for the most part, and quite a few have already evolved into specialized wholesale markets. The scale of wholesale market business has also expanded steadily. In 1986, volume of trading in city and rural wholesale markets averaged 3.18 million yuan, increasing to 86.4 million yuan in 1990. Wholesale markets also accounted for a rising percentage of the total volume of trade in city and rural country fair markets, wholesale markets doing 3.6 percent of business in 1986, and 5.3 percent in 1990.

**Wholesale Market Development Extremely Uneven in Terms of Quality** The Dazhong Si Wholesale Market in Beijing, the Shouguang Wholesale Market in Shandong, the Buji Wholesale Market in Shenzhen, and the South Station Wholesale Market in Shenyang, Liaoning Province have become the largest wholesale markets in terms of the scale of trading, numbers of transactions, and extremely high name recognition. At the same time, numerous small or seasonal wholesale markets operate along highways. A large number of early stage wholesale markets are of this kind. In both production areas and marketing areas, the unevenness in development of wholesale markets is very pronounced. This unevenness reflects different stages of development.

**Wholesale Markets Increasingly Permeate Society** Shenyang's South Station Market has a steady supply of goods from all over the country, and it is frequently filled with travelling traders from everywhere. It attracts agricultural products from all of China's 28 provinces and directly administered municipalities with the exception of Taiwan and Tibet. So far, this market has established more than 40 bases for the supply of goods from 30 cities in seven provinces. More than 90 percent of the vegetables sold there come from elsewhere, 39 percent of them from the supply bases. Nearly 600 counties in 26 provinces, municipalities, and prefectures regularly send goods to the Dazhong Si Wholesale Market in Beijing. Between May and August each year, approximately 80 percent of the vegetables arriving in this market come from elsewhere, and between September and April of the following year, 95 percent of the market's vegetables come from elsewhere. In the Shouguang Vegetable Wholesale Market, which is located in a producing area, about 45 percent of business volume is in sales to other provinces and cities, the sales area encompassing 49 provinces and cities.

Wholesale markets in some fairly large producing and marketing areas are gradually becoming regional or even national agricultural products collection and distribution centers. No longer is the Shouguang Wholesale Market a market solely for the sale of local vegetables. It also sells agricultural products from 14 other provinces

and prefectures. In fact, it has become a hub for the movement of southern vegetables to the north and northern vegetables to the south. Shenyang's South Station Market has also developed into a collection and distribution point for the movement of southern vegetables to the northeastern provinces.

**Wide Disparity in Wholesale Markets' Location, Facilities, and Services** Relatively speaking, facilities in production area wholesale markets are not as good as in marketing area production markets. In production areas, the most basic conditions are a fixed place of business and convenient transportation. In quite a few production areas throughout the country, wholesale markets have yet to solve problems in these regards. This is particularly true in markets that deal in seasonal melons and vegetables, most of which are concentrated along highways. Markets also differ greatly in space. At the Dazhong Si Wholesale Market in Beijing, for example, business is conducted in an open air area having 120 vendor sites, and the market has a service corps of 50 trucks, 400 storage rooms and a small 50 ton cold storage locker. Its communication facilities consist of a main switchboard and 200 extensions, and 10 long distance lines. Its living facilities can provide food and lodgings for 500 people. On the other hand, the Nanguan Wholesale Market at Wuwei in Gansu Province has only a 492 square meter small canopy to ward over the sun and the rain; the traders themselves must provide transportation; there are no permanent storage facilities nor dedicated communications facilities; and the market lacks any lodging or eating facilities.

**Investment in Construction of Wholesale Markets Was Flexible at First and Rigid Later On** Investment in the building of wholesale markets is predominantly of two kinds: one is investment in the site, and the other is investment in facilities. Investment in the site includes purchase or requisitioning of the land, as well as outlays for needed leveling of the site. However, if open space alongside highways is used, or if the unit in charge of running the market has its own land (such as the collectively owned land of a township or village cooperative organization), this problem can be readily solved. Investment in facilities is even more flexible. Where little is available for investment, small scale entirely open air trading may be done. Naturally, the amount invested affects greatly the development of a wholesale market. In quite a few places that can make no investment, getting started is virtually impossible. However, generally speaking, the birth of wholesale markets in very many places did not require an especially large investment. This was particularly true of production areas; otherwise, it would be very difficult to understand how agricultural product wholesale markets in producing areas throughout the country could have developed so rapidly. Nevertheless, once wholesale markets come into being, a large amount of investment is needed for facilities, services, transportation, and communications. Very many wholesale markets that depend on their own accumulations as a source of funds may have a fairly

large capacity to invest. Once trading volume reaches a certain scale, income from market operation is fairly sizeable. Specifically, one source of market income is the collection of trading management fees that run between 1 and 2 percent of business volume. A second source is fees collected from the leasing of vendor sites. Thanks to advantages in many different regards, the Buji Wholesale Market in Shenzhen recovered virtually its entire investment from the leasing of vendor sites. The situation in the five markets shows that for every 1 yuan of business transacted, the market makes a profit of between two and three fen. Figured at the lower amount, a wholesale market that does 100 million yuan worth of business in a year can make a net return of 2 million yuan. As an investment, returns from wholesale markets are fairly high, and recovery of investment is very quick. Some markets also make a very high return on the services they provide such as delivery vehicles, processing, packing, storage, and inns. Once a market reaches a fairly stable size, it can very readily attract other kinds of investment from all quarters of society. In both production areas and marketing areas today, these enterprises have sprung up as an accompaniment to the development of wholesale markets.

### 3. Founding, Managing, and Operating

**(1) Founding Wholesale Markets** Currently, wholesale markets are started in several different ways. One way is for industrial and commercial units to start them, and this is the method used in an overwhelming majority of instances nationwide. Industrial and commercial units have not only started up medium and small scale markets, but they also started up the fairly large production area and marketing area Shouguang and Shenyang South Station wholesale markets. Another way is for state-owned companies to start them. Some wholesale markets were founded by state-owned commodity marketing corporations. One example was some aquatic products wholesale markets that were founded by an aquatic products company. The Heping Li Wholesale Market in Beijing was established by the Heping Li State-Owned Vegetable Company. Not only individual companies, but partnerships of several companies open markets. An example is the Buji Wholesale Market in Shenzhen. This market was founded by the Shenzhen Municipal Agricultural Products Wholesale Company, which is a joint stock corporation that includes the Municipal Food Company, the Fruits and Vegetables Trading Company, the Aquatic Products Supply and Marketing Company, the Nonstaple Food Company, the Finance and Trade Enterprise Development Company, the Social Labor Insurance Company, the Guangzhou-Shenzhen Railroad External Services Company, and the Shenzhen Agricultural By-products Trading Center. A third way is founding by a peasant collective organization. A classic example is Beijing's Dazhong Si Wholesale Market, which was built entirely with village collective land and village supplied capital. A fourth way is nominal government funding. An example is the Hainan Provincial Agricultural Products Wholesale Market, which was

started by the Hainan Comprehensive Agricultural Development Experimental Area Management Committee. There are not many such nominally government-run wholesale markets nationwide. A number of normal special wholesale markets being trial built today must be government sponsored according to explicit provisions, commercial units mandated to run them. However, in actual operation, particularly in the case of provincial markets, the commercial company concerned still holds a very large amount of authority.

**(2) Management** Wholesale markets have two kinds of management. One is management in accordance with state regulations pertaining to markets; the other is market internally self-regulated management. In markets that industrial and commercial units run, both management forms are usually used. In markets run by other units, two different methods are used. One is to set up units responsible for industrial, commercial, and tax matters within the markets to enforce state policies, laws and regulations. Pertinent self-enforced regulations are administered by the market, or the operators directly carry them out. The other method is for both kinds of management functions to be discharged by the owners. This is the method that the Beijing Heping Li Wholesale Market uses. No agencies responsible for industrial or commercial matters have been established in the market; instead, each unit manages only the wholesale market. It does not manage trading activities or trading procedures in the market.

**(3) Market Operators** The term market operators means the operating principals; it does not mean the principals involved in buying and selling in the market. Market operators are responsible for planning the building of basic market facilities, for organizing investment and for direct investment. Their sources of revenue are the collection of management fees on transactions and vendor site rental fees, as well as income from other services that they operate. Provision of various services needed in trading activities is a basic task of market operators. To improve management of market services, as well as to improve returns from the services provided, some markets have begun to set up units that provide multiple services. Shenyang's South Station Market, for example, set up independent accounting and market procurement and marketing service companies responsible for their own profits and losses as fixed institutions with the goal of making markets prosper and accommodating travelling merchants. They function as centers providing low cost services of many kinds. One of their functions is supervision and control. They exercise supervision according to law over state-owned and collective entrepreneurial units that conduct buying and selling in the market, as well as the activities of individual operators, ensuring that business is done according to law, maintaining market order, and cracking down on illegal activities. Second is services to travelling businessmen, accommodating them in their buying and selling activities, and providing multiple services for pay. Today, many units in charge of markets

are actually also market operators. Even though the operators of wholesale markets have service as their aim, most of them not themselves engaging in trading activities, they act like business enterprises nevertheless. The state designated the standard Zhengzhou Wholesale Food Market an entrepreneurial unit, but the government has made no specific provisions for most wholesale markets engaged in spot transactions.

#### **(4) Setting Up of State Management and Service Agencies**

No state management and service agencies or personnel have spread as yet to small wholesale markets, but such agencies have begun to appear in large markets. The Shenyang South Station Wholesale Market, for example, has industrial and commercial, service, and epidemic prevention offices, a commercial bank, a savings bank, a post office, a train and ship reservation office, and a freight consignment office. Beijing's Dazhong Si Wholesale Market has set up an industrial and commercial administrative office, a tax office, a market police station, a market savings agency, and a legal affairs office.

**(5) Buyers and Sellers** By comparison with the normal commodity flow wholesale markets, most spot wholesale markets have an extremely broad social participation. In the five wholesale markets surveyed, individual transactions numbered more than 30,000 each day, and people from virtually every walk of life took part in them.

#### **4. Market Trading Behavior**

**(1) Most of the Main Participants in Spot Wholesale Market Activity Are City and Country Individually Owned Businesses** In producing areas, mostly it is individual hauling households and large numbers of scattered peasant households that trade; in marketing areas, it is mostly individual haulers, and large numbers of scattered individual retailers who trade. This includes wholesale markets serving a wide area in both producing areas and marketing areas. The markets set no limits on the number of people trading in the market or the minimum volume of business. On the contrary, they try to think of ways to attract customers from all over to increase the volume of market transactions in order to increase the amount of money the markets make. So long as those who come are legal operators with a general industrial and commercial business license, most markets do not establish regulations about the amount of money the traders have, their business reputation, or a business security deposit, nor do they rigorously examine their credentials. Seemingly there are no bars to market entry. The advantage of this system is that it insures maximum social participation in the wholesale markets, but it poses very great difficulties for regulation of market trading. Because of the excessively large number of traders, plus the complex make-up of the individual businessmen who are in the majority and the very great differences in their personal traits, market disputes and other nasty events frequently occur. In addition, panic buying and selling, and disparagement of quality in order to force down prices frequently happen, or instance have been discovered in which shady social

organizations engaged in racketeering and extortion, deception and efforts to dominate the market.

**(2) Most Buyers and Sellers in the Markets Conclude Deals Then and There; Once a Deal Is Concluded, Money and Goods Are Exchanged** Settlement is made in cash for the most part. In the Shouguang Wholesale Market, for example, deals paid for in cash account for 85 percent of trading volume. Payment through bank check transfers mostly occurs among state-owned or collective units having an established business relationship. Such bank settlements account for 15 percent of transactions. An overwhelming majority of bank settlements are one time settlements; only a few units employ regular or irregular settlements. Markets have no mandatory regulations regarding the method of settlement for any traders.

With the advent of trading activities, middlemen procurement and marketing agents have begun to appear. Such agents usually do ad hoc business. Sellers commission them as sales agents when agricultural products cannot be otherwise sold for a time. This situation has occurred in several fairly large wholesale markets. However, middlemen specializing in the procurement and marketing agent business have yet to play a formal role. At the present time, wholesale management or service units mostly regard the buying and selling agent business as a service they provide.

Futures trading has yet to begin. Some buying and selling prearrangements have been contracted between fairly large buyers and sellers. These prearrangements do not set a firm price, and if they are not honored, no one pursues the matter punitively. They have no real binding force. Large wholesale markets have agreements with some supply bases, but this does not constitute contract or futures buying and selling.

**(3) Spot Wholesale Market Prices Are Set Entirely Spontaneously** Not only do markets themselves positively not interfere with prices, but even the government in places where markets are located interfere extremely little. Buyers and sellers take into account prices on the first day of trading (generally, markets post them on a blackboard), and they note prices being charged by others to arrive at a minimum price themselves. Then both parties parley, the seller quoting a price in most cases. The price finally agreed on is usually not very far from the price quoted. Even though fairly large wholesale markets buy and sell on a nationwide scale, prices levels are mostly decided on the basis of the amounts sent to market and the amount of demand in local markets themselves. Price differences between one wholesale market and another are fairly wide. This shows that the way in which prices are formed in wholesale markets has not broken through regional boundaries. In addition, market prices change rapidly and fluctuate greatly showing that, like city and country-side country fair markets, spot wholesale markets lack a mechanism for stabilizing prices. Reducing price fluctuations in wholesale markets requires further access to market information, government regulation and control,

market organization, and the development of peasant production organizations. Some locales have already begun to give attention to these matters.

To date, no wholesale traders able to centralize price information, and able to coalesce and centrally organize both the supply and the demand parties to shape prices in an orderly way have appeared in China's wholesale markets, nor have the middlemen formed a permanent grouping. As a result, artificial factors and various random factors weigh very greatly in the formation of prices. This results in very great price fluctuations. The percentage of market profit sharing is very uncertain; thus, all who trade there feel that risks are very great. They lack a sense of permanence.

Yet another reason for the lack of transparency in the division of profits and for the wild price fluctuations may be found in the lack of a graduated, organically linked relationship among wholesale markets in production and marketing areas. Foreign practice shows that even though wholesale transactions exist at various levels, it is the fairly large scale central wholesale markets, which reflect in a concentrated way producer benefits and consumer benefits, that have a real effect on markets and play a decisive role on prices. In central wholesale markets, it is the supplier of goods or his agents that directly represent the peasant producers. Before trading begins in wholesale markets, goods are usually assembled in the producing areas, but this assembling of goods does not shape prices. Most markets in which goods are assembled are run by peasants themselves or are organized by sales agents. Before trade begins in wholesale markets, the markets in which goods are assembled do not settle with the peasants. The seller not only represents the central market but also has secondary and tertiary wholesale markets. Prices in these wholesale markets are all formed following settlement in the central market. Clearly, the division of market profits between the supplier and the demander is done through the central wholesale market. In other words, basic prices of products are shaped by the central wholesale market. What the owner of the goods or the wholesale markets at each level receive from transactions is actually an internal redistribution of returns of either the seller or the buyer. By increasing control over transactions of the central wholesale markets, the entire market transactions order can be stabilized, and the division of price benefits will also be fairly rational.

The prices shaped in China's wholesale markets today, particularly in marketing area wholesale markets, are not the base prices for agricultural products. This is because an overwhelming majority of products have been bought from peasants by households specializing in their transportation before they reach the wholesale market. Base prices in the fields or along highways in producing areas are set when the transporters buy them from the peasants; thus, commercial profits are actually basically set at that time. After they enter the wholesale market, most sellers merely represent their own interests; transactions

between buyers and sellers are completely a redistribution of commercial profits. The price is only an intermediate price. The information that consumers need when buying is substantially a monopoly of those transporting the goods. The setting of the base price for agricultural products before they enter wholesale markets shows that even in the case of market regulated products, the peasants do not, in fact, have the initiative in determining prices. Discrimination against the peasants also exists in market regulation. On the other end, market discrimination creates extremely great profits for the middlemen. Since the peasants are little organized, market discrimination against them cannot be easily eradicated in the short term. Enlightened governments in producing areas are also aware of this problem, and they have adopted various means of intervention. For example, Shouguang County in Shandong has ruled that businesses and individual industrial and commercial units are strictly prohibited from going to areas where vegetables are being harvested to buy them up and turn them over at a profit to wholesale markets. The county encourages and supports peasants themselves in delivering vegetables directly to wholesale markets.

### 5. The Market System and Supervision and Control

In the course of their development, all wholesale markets constantly have built and improved various systems. These regulatory systems may be divided into several kinds as follows: One is general market rules and regulations. These include general regulations pertaining to the market's administration and management aims, services provided, organizational mechanism, management services regulations, and organizational discipline. Second is the coordination of management. This is basically for the purpose of providing effective market leadership that ensures coordination of all aspects of management work, and the formulation of work procedures and requirements for managerial cadres at all levels—a management system and a conference system, for example. Third is management of working personnel. Provisions in this regard account for a very large percentage of all regulations, including political and social ethics requirements, discipline, and obligations, vocational assignments, and position responsibility systems. Fourth is trading procedures. This includes a sanitary work place environment, traffic regulations, public order regulations, and business ethics. Fifth is market service. This includes fee collection standards and fee collection methods for all transactions, building and facilities rental methods, and long-term cooperation agreements of units concerned. These rules and regulations are largely in the nature of market self-regulation and self-administration. As to how the state regulates, controls, and manages these wholesale markets, so far no clear-cut provisions are in sight.

Methods of paying wholesale market management and service costs vary from place to place. Generally speaking, most basic managerial personnel in the markets themselves receive wages. Bonuses for those contracted to perform specific tasks depend, in most cases,

on returns from their contracting. In addition to the basic managerial corps, quite a few markets also employ a number of auxiliary managerial personnel. Some of these are paid wages, and some of them receive income based on a contract.

Because of the participation in wholesale markets of people from all walks of life who come from disparate backgrounds, practice has shown that very many management regulations and systems simply grow out of the markets themselves, and that management and supervisory work that relies solely on the market's own group of people falls far short of needs. A certain amount of government intervention is required to raise the authoritarianism of control. During this individual case survey, many market managers said that they wished the state would centrally promulgate some wholesale market laws and regulations.

### 6. Social Function and Benefits

**(1) The Most Fundamental Function of Wholesale Markets Is the Collection and Distribution of Goods To Balance Supply and Demand** This collection and distribution function can effectively regulate market fluctuations brought on by the unevenness of distribution between supply and demand areas. In 1983, Shouguang County in Shandong Province expanded its Chinese cabbage growing area, output increasing to 250 million kilograms. Because of the poor job done of marketing it, however, 50 million kilograms rotted that year because it could not be sold. After establishing a wholesale market, the rotting of large amounts of vegetable did not recur. Instead, the wholesale market greatly stimulated both the volume and the varieties of vegetables sold.

**(2) Functions of the Wholesale Markets' Information Centers Becoming Increasingly Manifest** Most important is price information. Although price formation must be further regularized, thanks to the large volume of their transactions and the vast area that wholesale markets serve, their prices of agricultural products represent prices over a definite area; thus their influence on both producers and marketers is fairly great. In addition, information about the kinds of produce on which transactions were completed, product specifications, and quality, is also collected and distributed through the wholesale markets. The smarter market managers pay extremely close attention to the relay of information, and they are willing to invest a lot in information techniques in order to increase market cohesiveness. Modern communications techniques have been put in place within the large trading hall of the Shenyang South Station Wholesale Market, which uses closed circuit television for the rapid display of trading information such as prices of different products. The Bashang Street Wholesale Market in Hefei has set up a three tier information network with 492 counties inside and outside the province, which relays information promptly and accurately to dealers and producers.

**(3) Wholesale Markets Are Gradually Becoming Multi-functional Service Centers** As trading activity expands, some wholesale markets have begun to provide delivery, storage, packaging, processing, information consulting, food, lodging, and entertainment services, thereby providing multiple benefits for traders.

**(4) Some Fairly Large Wholesale Markets Are Striving To Build Permanent Relationships With Customers** The establishment of permanent relations not only assures returns for the market, but it also objectively promotes the permanence of production bases and consumer markets. The South Station Wholesale Market in Shenyang established a special supply base office, which it staffed with full-time personnel, and which inaugurated a year-round interview system to solicit the views and suggestions of customers in order to understand customers' problems and needs, and provide appropriate help. Just before the lunar New Year in 1991, the Huazhou City supply base in Guangdong reported problems in the turnover of its funds, so the South Station Wholesale Market immediately allocated 100,000 yuan for advance payment, thereby assuring market supply to customers during the lunar New Year period. In 1987, the South Station Wholesale Market began to experiment with a compensation fund for specialized households making year-round long distance deliveries. For those carrying out delivery plans who showed economic losses through no fault of their own, or those who lost money while carrying out market designated ad hoc delivery tasks, the market business unit's industrial and commercial management office disbursed compensation from its risk compensation fund. The risk compensation fund is formed through the withholding of 1 percent from market management fees. Since its formal inauguration in 1989, it has paid a total of 38,000 yuan in compensation to more than 40 haulers. More markets are providing preferential trading conditions as a means of building a permanent relationship with their important customers. This includes things such as priority admittance to the market, priority in the assignment of a vendor's location in the market, priority in the provision of various services, and lowering of marketing management fees and service fees.

**(5) The Advent of Wholesale Markets Is Actually Spurring the Rapid Development of a New System of Market Organization** Most obvious is that a number of long distance haulers are gradually becoming permanent haulers on which the wholesale markets depend. These relatively permanent haulers are directly or indirectly subject to varying degrees of market management and direction. This has greatly improved the orderliness of market transactions. At the same time, since the wholesale markets are extremely attentive to their relations with production bases, relations between the markets and the peasantry are also becoming increasingly close. Today, quite a few peasant households specializing in transportation and sales who rely on production bases for their livelihood have come into existence. With the advent of trading activity, in the future organizations of

various kinds that the peasants form to supply wholesale markets directly will certainly develop rapidly.

## 7. Government and Wholesale Markets

**(1) Governments at all Levels, Particularly Local Governments Are Becoming Increasingly Interested in Wholesale Markets, Their Enthusiasm for Supporting or Directly Building Wholesale Markets Is Extremely High** Nevertheless, how governments regard wholesale markets depends on whether the government is in a production area or a marketing area. In production areas, what governments like about wholesale markets is the high efficiency with which they rapidly distribute agricultural products. In marketing areas, governments prefer that they assure supplies for consumers and reduce fiscal subsidies. Leaders of very many large cities hope that they can reduce the scale of plan organization procurement and marketing through the establishment of wholesale markets, and reduce both agricultural product prices and fiscal subsidies for commodity circulation. Naturally, both production area and marketing area governments are quite aware that wholesale markets themselves produce rather good operating returns.

Wholesale markets need investment for intangibles such as space and capital, and they also have institutional needs for intangibles such as management and organization. Overall, governments place undue emphasis on tangibles. In order to promote the building of agricultural wholesale markets, the Ministry of Agriculture has assembled funds for investment in Beijing, Tianjin, Shanghai, and Chengdu. The Ministry of Commerce and the State Administration for Industry and Commerce have given corresponding financial support to some places. However, on the subject of the basic principles that should be followed with regard to different products, different areas, and different types of wholesale markets, and what kind of organizational system should be built, no one has presented a complete plan.

**(2) In the Building of a System, the Matters Urgently Requiring Solution Today Are Clarification of Market Management Functions and Setting Up Corresponding Organizations** Once wholesale markets get to a certain scale, administrative organs in the government system such as those pertaining to industry and commerce, public security, hygiene and sanitation, communications and transportation, and banking must be introduced. Coordination among these organs becomes a very big problem. The South Station Wholesale Market in Shenyang is operated by the Heping District Bureau of Commerce and Industry, but the Bureau of Commerce and industry is in no position at all to coordinate operating organs of all departments in the market. Each of the operating organs operates in a vacuum with the result that arbitrary assessments, arbitrary collection of fees, and chaotic management are the order of the day. In Beijing's Dazhong Si Market, some persons in charge who represent state administrative units hold the same rank as the market manager. In day-to-day operation, the warehouse manager employs advantages such as the

granting of concessions to place these units under his leadership. Some units do not fret about this way of doing things, but others, such as the tax unit, do not completely accept it. They call for the need to "both struggle against and unite with" the market. In cases in which a government agency or corporation directly operates a market, making government intervention impossible because the sponsorship, management and market administrative functions at various levels are not clearly spelled out, frictions are pervasive.

Direct government use of the wholesale market mechanism to effect regulation and control and to ensure market stability is still not universal; however, practice in some wholesale markets shows that this method offers very great potential and results from its use are very good. Much more effort must be made in this regard in the future.

#### **8. Various Problems Requiring Study**

Wholesale markets are more than just a simple upgrading of country fair markets; they are a new market mechanism representing the exchange of agricultural products on a large scale. The external function of wholesale markets in effectively collecting and distributing goods has been accepted, but their inherent institutional function as a new order for the exchange of commodities that they have spawned is still not fully appreciated by society as a whole. Further reform of the agricultural products circulation system will require further study, development, and planning of the position and inherent functions of wholesale markets.

**(1) On the Market Planning and Layout Problems** At the present time, there is no nationwide plan or layout for the building of wholesale markets. Facts show a certain correlation exists between wholesale markets and total regional commodity supply and demand. The wholesale market law that the government of Japan promulgated permits the building of a central wholesale market only for areas having a population of 200,000 or more, the reason being that this helps balance overall supply and demand. In building wholesale markets, consideration must also be given to coordination among different levels. In addition to central wholesale markets of a fairly large size, goods collection markets in producing areas must be coordinated with the re-wholesale markets at different levels in marketing areas. This is the only way that wholesale markets can form an organic market circulation network, and it will also make prices more rational.

**(2) On the Problem of Increasing the Degree of Organization of Peasants Entering the Markets** Even though spot wholesale markets enjoy widespread social participation at the present time, quite a few of those who come to the markets to trade are peasant haulers from producing areas. However, most of them are independent operators; they do not represent the overall interests of the peasants in producing areas. Only when the main

marketing entities or agents in wholesale markets represent the overall interests of the peasants will the peasants truly become a part of commodity circulation and gain the initiative in price negotiations. This is a key component in the perfection of existing wholesale markets. This shows that the building of agricultural commodity markets must be closely linked to the building of peasant marketing organizations.

The basic reason for the rather disorderly trading and the fairly high incidence of legal cases in wholesale markets today is the overly small size of the entities involved in trading. Market middlemen and agents have not yet developed fully, and big wholesale traders who can centrally organize deals in which both buyers and sellers compete fairly have yet to make their appearance.

**(3) On the Main Operator Problem** Governments at all levels, some agencies, some commercial organizations, and even some business firms are enthusiastic today about the operation of wholesale markets. Having multiple operators is not bad, but some basic principles must be followed. For example, no matter who operates a wholesale market, widespread social participation must be assured; no limits may be placed on who trades in them nor can there be any discrimination. No matter who is in charge, a clear distinction must be made in functions and organizational set up between the different status and authority of government and operators.

**(4) On the Market Management Issue** Some of the order in wholesale markets depends on the markets' own self-regulation and self-administration. However, some regulations must be drawn up and centrally enforced by legal organs at various levels, and some organizations are needed to supervise their enforcement, increased authority serving as a means to improve management results. The degree to which some existing rules and regulations may be applied loosely or strictly to wholesale markets must also go through a certain approval process. Today, some wholesale markets have numerous preferential measures that they have drawn up themselves to attract customers. These include things such as the lowering of industrial and commercial management fee requirements, or even helping customers avoid taxes. If a situation is allowed to develop in which one customer emulates the improper practices of another, this will be worrisome. How to set standards for wholesale market income from the price of land, and to whom it should belong merits study even more. At the present time, income from the price of land goes to the market owner in most cases, or the operator gives in to the traders who come to the market in the form of various preferential concessions.

**(5) On the Problem of Investment for the Building of Wholesale Markets** Wholesale markets need investment, and the returns recovered from such investment are also rather good. Governments may use working capital for which they pay small compensation for investment in wholesale markets, recovering it over a fixed period of

time. Alternatively, they may provide discounted loans. In general, they need not disburse treasury funds directly without compensation. Government provided investment should be used mostly to pay for land requisitioning and for the modernization of information

facilities from which the recovery of investment is slow. When government must truly allocate funds, it should use a stabilization funds that the market regulates and controls. As a practical matter, such a fund may be withheld from or added to market returns.

**Lanzhou MR Deputy Commander on Militia Work**

92CM0327A Beijing ZHONGGUO MINBING  
[CHINESE MILITIA] in Chinese No 4, 9 Apr 92  
pp 12-13

[Article by Chen Chao (7115 6389) Deputy Commander of the Lanzhou Military Region: "Correctly Handle 10 Relationships in Militia Work Through Application of Mao Zedong's Military Dialectic"]

[Text] 1. Correctly handle the relationship between military leadership and local leadership. Militia work implements leadership in both the local party committee, government systems, and in the military system. The military system is the military arm of the local party committee at the same level. Under the joint leadership of the local authorities and the higher echelon military departments, the militia completes its military missions through unified organization and command. In handling the leadership relationships of militia work, the local party committee must first persist in managing the armament system and in studying ways to resolve major problems in militia work. Through long experience in revolution and construction, our party has formed an effective series of systems for party management of armaments. Local party committees of every level must earnestly persist in doing their job, and party committee secretaries with concurrent responsibility for human resources and armaments at the provincial military district, sub-district, county and city levels must fulfill their duties well. Second, provincial military district systems must frequently seek guidance from and provide reports to the local party committees and government, closely coordinate actual work in the local regions, provide specific and timely ideas on how to implement the new plans and policies of party Central Committee and the Central Military Commission as they pertain to militia work, and offer the appropriate advice to the local party committees and governments. Third, militia work is not purely military work. It requires organic coordination and close cooperation between the military systems, local party and government organs, and the masses. Party committees in every province, locality, and county must emphasize greater commitment to the establishment of party military committees, giving full play to the coordinating role of party military committees in leading militia work, and seeing that organizations participating in the party military committees such as party, government, military leaders and organs, labor unions, the Communist Youth League, and the Woman's Federation, and provide active support to militia construction.

2. Correctly handle the relationship between militia work and work on key local projects. Comrade Mao Zedong pointed out in *On the 10 Great Relationships*, "we certainly must strengthen our national defense. Hence, first and foremost, we must strengthen the construction of our economy." First, we must abide by the principle of contributing to the work on key local

projects, whereby we conduct militia work in a way that conforms to economic construction. The development of such activities as militia organizational improvement training and political indoctrination must avoid interfering with the work being done on key local projects. This is required so that militia construction can enjoy continual strengthening on the foundation of economic development. Second, persist in the principle of making militia work suit the needs of national defense construction by arranging militia work on the basis of actual local conditions. In formulating development plans for militia construction, and when considering and proposing instructions, missions, and requirements for militia work, consideration must be given to local financial conditions and the capacities of the masses. Persist in seeking truth from facts and in acting on the basis of capabilities. Third, stick to the principle of close coordination between labor and the military, giving full play to the role of the militia in local work. On the one hand, this means giving full play to the role of the militia as a mainstay in safeguarding public security and in solidifying the people's democratic dictatorship so that safe, stable societal conditions are created for local economic construction. On the other hand, this means giving full play to the role of the militia as a shock brigade and vital force in production development with the aim of contributing to the vigorous development of the local economy. Fourth, persist in acting according to the principle of simultaneous objectives, making militia construction conform to the requirements of national defense construction. Economic development lies at the root of national development, and well-executed militia work is a sine qua non for national security. Party committees and governments in all locales must, in the interests of national survival and development, stress militia work, while holding economic construction as the focal point and vigorously promoting the new paradigm of reform and liberalization. They must properly resolve the manpower, financial, and materiel problems required for militia construction so that militia construction can be aligned with national defense construction.

3. Correctly handle the relationship between militia work and reservist work. First, we must correctly understand the specific and general natures of the militia and the reserves, and we must scientifically combine the two. The militia is the foundation for troop mobilization during wartime, and it has a reservist nature. The militia is also a constituent element of the three combined armed services, acting as an assistant to the armed services. Militia construction and reservist construction must be coordinated in such areas as organizational construction, military training, and political indoctrination. Basic and long-range construction of both the militia and the reserves must proceed under unified planning and leadership so that the two merge in a compatible way and develop in a synthetic way. Second, hold fast to the militia system, using militia organization as the primary organizational model for the reserves. Holding fast to the militia system is one of our basic national policies, and carrying out a people's war is both

our party's basic guiding line of warfare and our basic stance in conducting an active defensive warfare strategy. Holding fast to the militia system is one of the important ways our militia and our reserves act in concert. With the militia organizational model used as a primary source of reservist organization, reservist construction is thereby inextricably linked to the militia. Third, while holding fast to the militia system, we must continually work to improve the reservist system. The specific categories of reservist duties are fairly complete, especially among the reservist troop units who are capable of accomplishing a rapid organizational deployment. Establishment of the reservist system means that rapid deployments in future times of war will be reliably guaranteed, and we will have an available remedy for any deficiencies in the militia system. Long and persistent efforts are required to continually improve such aspects of the reservist system as the theoretical system, actual work, and legal construction, thereby forming a reservist force system that can both meet the demands of the people's war and satisfy the requirements of rapid deployment.

4. Correctly handle the relationship between militia organizational implementation and political and military implementation. First, organizational implementation must be handled well. This is a required basis for political and military implementation. The militia consists of armed organizations of members of the masses who remain tied to production. The fundamental requirement is that they are organized and that they do a good job, year round, of improving their organization and keeping their scales appropriate, their compositions rational, their cadres on the alert, their officers and troops in touch with each other, their troops pure, their systems complete, and their activities constant. Also, political implementation must be done well so that political and military implementation can be ensured. Faced with the complex, changing international situation today, we must position ourselves as anti-aggression and anti-“peaceful evolution,” and we must clearly understand the importance and urgency of strengthened political construction in the militia during this new era. Strengthening the absolute leadership of the party over the militia requires that the militia receive frequent education in party lines, plans, and policies. We must ensure that, in carrying out its military mission, the militia is staunch and correct in its political direction, highly disciplined, obedient to orders, successful in its missions, and persistent in overcoming obstacles. Furthermore, military implementation must be handled well. This is the basic objective of political and organization implementation. Military training must be conscientiously strengthened, militia armaments must be distributed and managed well, and successful deployment plans and protective measures must be formulated to deal with various sorts of sudden disturbances. Militia organization must, at all times, aim for combat readiness, ensuring that a single call will prompt everyone to

action, that the response will be rapid, that if called all will come, and that when they come they will be capable of fighting.

5. Correctly handle the relationship between key militia work and ordinary militia work. From an object standpoint, core militia is a key item, while regular militia is an ordinary item. Among the core militia, retired military and militia with specialized technical skills are key items. Construction of a militia with technically skilled members is not only a key item, but a difficult item as well. We must increase the proportion of militia members with training in technical skills, strengthen construction of our storehouse of technically skilled militiamen, and conscientiously work to strengthen construction of a technically skilled militia. Militia cadres are a key item throughout the entire work of militia construction and they should receive emphasis and strengthened regard. From a regional standpoint, militia work in such areas as borders, coasts, large- and medium-sized cities, and minority areas is a key item, while militia work in the hinterland and in other areas is an ordinary item. Large- and medium-sized cities are political, economic, and cultural centers which, in wartime, inevitably become prime targets for enemy raids. During times when local warfare threatens to erupt, our border regions will be the first to feel the brunt of every attack. Stable unity in our minority areas is related to the security and stability of our nation as a whole. While highlighting the cities as key items, we must also do a good job of involving the farming villages which are “major elements.” Viewed from the standpoint of work items, the bottom-line work of “the three implementations” is a key item, while we must also fully engage the militia in the two types of cultural construction.

6. Correctly handle quantitative and qualitative relationships in militia construction. This directly affects both national defense construction and national economic construction. First, we must scientifically assess and control quantities. “Too many cannot be supported, but too few cannot defend us.” The overall scale for current militia construction is determined, through numerous adjustments and cutbacks, by focusing on the requirements of a modern people's war with reference to military strategy in this new era. All areas must earnestly implement quantitative plans and do well in allocation work based on the missions given them by the party military committees. In addition, we must conscientiously work to heighten quality. We cannot equate “a people's war” with the idea of “warfare through attrition of a horde.” Serious organization adjustments are required so that we may raise the political, military, cultural, and physical quality of every member of the militia through standardized military training and strong political education.

7. Correctly handle the relationship between militia work and troop work. First, the provincial military districts must treat militia work as a primary mission. The primary mission of provincial military districts and sub-districts is to lead and command the militia. This

enormous responsibility that has been undertaken must be fully recognized, and in such areas as ideology, delegation of tasks by senior officers, application of mechanized forces, and income and expenses, we must ensure that militia work, as a key item, is given conscientious expression, that those items of basic construction that have long made a difference are attended to with vigor, and that primary energy is devoted to successful labor in the nuts and bolts of militia work. Second, provincial military districts with active troop units must simultaneously attend to troop work and militia work. Provincial military districts with border and coastal defense troops should consider combining troop and militia work such that a border and coastal defense force system can be formed with active troops as the backbone and the militia as the foundation. Third, we must work hard to ensure that the troops and the militia merge into a mutually supporting system.

8. Correctly handle the relationship between militia work and national defense education. Militia work and national defense education make up the two aspects of soldier preparation and ideological preparation involved in national defense construction. The very existence of the militia is an actual manifestation of national defense education. A strong national defense mindset is the potent spiritual weapon that results from doing a good job in militia work. First, we must treat the strengthening of national defense education as a primary means of strengthening militia construction. The provincial military district systems must give full play to the role of national defense education, and through constant national defense education, they must increase the awareness of national defense in the minds of the people of their districts, they must create a beneficial societal mood where each and every person care about the destiny of their nation and militia construction. Second, national defense education must be treated as a vital element of strengthened ideological and political construction in the militia. Every level of every sector, military or otherwise, must constantly practice patriotism, revolutionary heroism, situational combat readiness, and lawful service of the military as specific items of national defense education that support the militia. Our numerous militia members must be inculcated with the necessary spiritual preparation that will enable them to deal with the sudden, brutal aspects of warfare. When needed, they must be capable of unflinchingly engaging and driving out the aggressors. Third, increased awareness of national defense among the people must proceed from strengthened militia work. The provincial military districts should make concerted efforts to strengthen militia work and promote the development of the whole people's national defense education undertaking.

9. Correctly handle the relationship between militia work and the people's air defense and logistical strategy work. First, we must increase our awareness of whole arenas, fully recognizing the strategic positions and roles of the people's air defense and logistical strategy work.

Modern warfare involves broad battlefields, with numerous, high-strength troop forces, enormous materiel expenditures, vast regions over which troop forces must be re-directed and materiel sent, huge quantities involved in all facets, and logistical missions of vital urgency. The only way to effectively improve the wartime logistical capacities of our troops and create conditions for seizing the initiative in battle is to organize the force mobilization of our nation's communication and transportation industries into a sea-, land-, and air-based network of guaranteed logistical reliability. Second, in our work directives we must comprehensively consider the combined efficiency of militia work and people's air defense and logistical strategy work. Our nation's logistical strategy work already enjoys something of a firm foundation thanks to the construction and development that has come about in our communications and transportation industries. The provincial military district systems must, as a foundation, examine the statistics and do comprehensive analyses and proofs, and then follow the principle of adhering to the strategic plans of the party military committees, conforming to the overall programs devised, highlighting the key items, and combining peacetime and wartime preparation, so as to formulate good plans to ensure the availability of communication and transportation elements during wartime, the requisition of local communication and transportation tools during wartime, and the merger of logistical strategy work with preparation work for troop mobilization.

10. Correctly handle the relationship between peacetime work and wartime mobilization. The basic principle and requirement of militia work is to combine peacetime activities with wartime activities. First, peacetime work must be designed in light of wartime requirements, with peacetime used to prepare for wartime. The provincial military district systems must formulate effective plans to ensure that troops will be mobilized in response to regional wartime requirements, yet they must also provide for the demands of full-scale warfare. Both are accomplished by doing step-by-step preparatory work on wartime troop mobilization. Effective war schedules must be drawn, training and drills must be carried out to prepare the troops to respond to attacks on our borders, coasts, and cities, research and training in such militia war missions as carrying out guerrilla operations and holding up under force diversions demanded by modern warfare conditions must be strengthened, and the capacity to prosecute a war of expulsion must be continually heightened. Second, peacetime work must serve to promote preparatory work on implementing wartime mobilizations. While strengthening militia training, we must also attach importance to tempering the militia units and fostering their fighting spirit by organizing them to handle strategic peacetime missions such as dealing with emergencies and disasters and coordinating with the public security departments in safeguarding social stability. When problems crop up, the militia must be able to mobilize rapidly and carry out the mission, bestowed upon it by the party and the people, of quelling the myriad forms of disturbance.

## CENTRAL-SOUTH REGION

### Discussion of Enterprise Bankruptcy in Shenzhen 92CE0573A Shenzhen SHENZHEN TEQU BAO in Chinese 17 Jun 92 pp 1, 2

[Article by Wu Wei (0702 0251) and Li Jiaqi (2621 0163 3823): "The Red Light' Has Finally Been Flashed—Thoughts Aroused by Shenzhen's First State-Owned Enterprise Bankruptcy"]

[Text]

I

On 10 June 1992, the Shenzhen Intermediate People's Court ruled that the state-owned Guangchang Color-Printing Equipment Corp Ltd was bankrupt!

Such legal rulings of bankruptcy have actually been common occurrences during the 200 years since the birth of modern industry. But while countless business owners have writhed in despair when faced with the evil prospect of bankruptcy ever since 1825 when the first great economic crisis broke out in Western society, this is the first time that a state-owned enterprise in the Shenzhen SEZ on the frontline of China's reform and opening up to the outside world has tasted the bitter gall of bankruptcy.

While it has taken a long time for this pioneering act to occur, SEZ businessmen are rejoicing that this solemn legal ruling has speeded up Shenzhen's exploration of deepening of reform and establishment of market forces. An official at the Shenzhen System Reform Office said it well as follows: This is a key matter that shows the substantive progress that the Shenzhen SEZ has made in deepening of reform.

It should be pointed out that while SEZ businessmen stopped being strangers to the introduction of market forces on the day when China began to open up to the outside world, and that they have gradually achieved some shallow reforms, such as enabling enterprises to organize their own production, supply, and marketing based on market demand, they have long vacillated about reform to introduce market forces on a deeper level. Why have our enterprises been unable to quickly gear up for production of scale in line with market changes, in order to achieve a rational circulation and transformation of key production elements? This just so happens to involve the sensitive issue of bankruptcy.

Some have called enterprises with severe losses and more liabilities than assets "cancers" on our economic life. While such enterprises tie up many key production elements, such as factory space, manpower, and equipment, and certainly continue to gobble up new key production elements from society, their production efficiency is still a negative value. Others have made up the following jingle about these enterprises: "When they have no money, they borrow, but when they borrow, they do not repay. They may not be able to pay, but they sure do know how to spend." The defects of the system of

"everyone eating out of one big pot," which trampled even on the minimum commodity economy requirement that "you can borrow money if you need to, but you must repay what you borrow or go bankrupt," further obstructed the establishment of new market forces of freedom and flexibility.

The revitalization of enterprises requires the establishment of key production element markets, the establishment of which is eagerly awaiting the market force of elimination through competition. In this second spring of the 1990's, when there is much censure in international medical circles about "letting anyone die a peaceful death," those in the know in the Shenzhen SEZ have reached the consensus that it is wrong to keep bad enterprises afloat and good ones from thriving, so that losing enterprises in their death throes should be allowed to "die peaceful deaths."

Thus, an all-out probe into ways of liberating thinking about "bankruptcy" is brewing and developing in Shenzhen.

The "bankruptcy" issue is also being put for the first time on the agendas of the highest policymakers. Shenzhen Party Committee Secretary Li Hao [2621 3493] said that as Shenzhen has accomplished all economic reforms except bankruptcy, it must be allowed to experiment with bankruptcy no matter what. In its role as the owner of state property, the Shenzhen government has also drawn up a mandatory target to force two or three enterprises to declare bankruptcy in 1992.

Despite the difficulties involved, the SEZ's first "bankrupt enterprise" has finally arrived.

II

At an all-Shenzhen conference on bankruptcy in 1991, an officer of the Qingshuihe Industrial Corp pointed out that its subordinate, the Guangchang Color-Printing Equipment Corp Ltd, had been so poorly run and had created losses so severe that it was unable to pay its debts on time, so was prepared to declare bankruptcy.

On 9 December 1991, with the consent of its parent company, the Guangchang Corp applied to the Shenzhen Intermediate People's Court for permission to declare bankruptcy. On 12 December, the Shenzhen Intermediate People's Court officially accepted the case.

As this first case of bankruptcy in the history of the Shenzhen SEZ had become a focus of public and media attention, the judges were extremely cautious about this unprecedented case, maintaining a strict silence when faced with swarms of reporters.

On 29 December, the SHENZHEN TEQU BAO published a court proclamation asking that all of Guangchang's creditors and debtors come to court to register Guangchang's debts. But by the expiration of the three month proclamation, only 15 of Guangchang's 54

creditors had responded. Perhaps they were still too puzzled or anxious about this grating term, "bankruptcy."

Meanwhile, Guangchang's staff members and workers were suffering from low morale, and everyone was making plans for their respective futures. Guangchang's superior department, the Qingshuihe Industrial Corp, was also worried about the following problems: Who would make arrangements for the enterprise staff members and workers after "Guangchang" went bankrupt? And might "Qingshuihe" be held responsible for "Guangchang's" debts?

But all of this was being taken care of according to legal procedures.

On 15 April 1992, the Shenzhen Intermediate People's Court held the first meeting of Guangchang's creditors, for which it appointed as chair Xie Qiang [6200 1730], the chairman of the board of the Shenzhen International Trust and Investment Corp.

On 8 June, the second meeting of Guangchang's creditors was held, at which it was decided that the bankrupt Guangchang's assets would be auctioned off.

On 10 June, the litigation was completed, finding that the Guangchang Corp, which had been in operation for 6 years and had registered capital of 7.73 million yuan, actually had fixed assets worth more than 8.01 million yuan and credits of over 9.17 million yuan, but debts of over 26.31 million yuan, leaving outstanding debts of more than 9.12 million yuan. As Guangchang had such severe losses that it was unable to pay its debts, the Shenzhen Intermediate People's Court made a legal ruling declaring that the Guangchang Corp was bankrupt.

From the time when the *PRC Enterprise Bankruptcy Law* was put into effect throughout China on 2 November 1988, to the appearance of the first bankrupt enterprise in the Shenzhen SEZ, a whole three and a half years had passed.

### III

As to liberating thinking, the waves made by the "Guangchang" bankruptcy have forced people into making the following even deeper reflections, which are the social and economic significance of the Guangchang bankruptcy case:

1. Although China's state-owned enterprise bankruptcy law was put into effect throughout the country in 1988, a bankrupt enterprise is still to this day a rarity of rarities, with Shenzhen being no exception. This is due to the error created by the traditional mindset that state-owned enterprises had so long been protected by "everyone eating out of one big pot" and "paternal affection" that they could not be subjected to or basically could not withstand being closed down and declared bankrupt.

As managers of creditor units are worried that enterprise bankruptcy will expose losses due to bad debts, so are unwilling to take the corresponding risks, while debtors in losing enterprises invariably hope that the government will provide the policy conditions for their "rebirth," so that certain losing enterprises have even become shelters for individuals to get rich, neither creditors or debtors wish to apply for bankruptcy. In the final analysis, this unwillingness to apply for bankruptcy is an irresponsible action as far as state property is concerned. The facts have proved that bankruptcy, as far as creditors are concerned, can settle debts that existed in name only and were not going to be paid in the foreseeable future, thus reducing losses to a minimum and, as to debtors, is the only way for enterprises to extricate themselves from their fixes, cast off their burdens, and repay their debts. Bankruptcy is a special form of debt repayment, which can put a real end to the endless waste of our national wealth.

2. The establishment of an enterprise bankruptcy system has also given a substantive push to SEZ key production element markets.

The government has long made many attempts to inject some vitality into state-owned enterprises.

The traditional methods included reorganizing leading bodies, providing tax reductions and exemptions, expanding management decisionmaking power, and closing, suspending operation, merging, or switching to manufacture of other products. There was actually no alternative to such methods of administrative interference. Even the later method of transferring property rights, which was accepted and acclaimed by many, did not basically solve the problem.

In which case, how are we to concentrate our limited key production elements, such as factory space, equipment, funds, and manpower, in enterprises with outstanding achievements and high efficiency? The way to effect a permanent cure is to let enterprises on the verge of bankruptcy "die," so that the key production elements that they are tying up can be put on the market to realize their proper value in line with the laws of commodity circulation.

3. It has been revealed that after Guangchang goes bankrupt, its assets will be auctioned off separately by the city of Shenzhen as moveable property and real estate.

While auctions have been regarded as products of private economies, they have also begun to function in socialist SEZ's in areas, such as state property administration and appreciation. In fact, the earliest inducement to SEZ reformers to create auction markets grew out of the same idea as enterprise bankruptcy. Auctions provide creditors with a way and an arena in which to secure loans.

The SEZ now has a bankrupt enterprise whose bankrupt assets can be auctioned off competitively and publicly, in

order to realize their maximum appreciation, improve repayment capability, and ensure more compensation of creditor's legal rights and interests, while state property losses can be reduced. Moreover, this method of public competitive pricing will also be an indirect way of attracting both domestic and foreign investment.

After a long wait, we have finally seen the SEZ's first state-owned enterprise bankruptcy. Having taken the first step, we should be able to achieve a wholesale revitalization. While we hope to see more enterprises on the verge of bankruptcy "die off" as soon as possible, we wish even more for the early perfection in Shenzhen of genuine competitive market forces, so that enterprise deaths will become as common an occurrence as enterprise births.

## NORTH REGION

### Tianjin Suggestions on Reform, Opening Up

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20 Jun 92 pp 1-2

[Text] Over the past few months, the morale of cadres and the masses throughout the municipality has been enhanced, the pace of reform and opening up has been quickened substantially, and the economic development trend has been very good, thanks to the profound study and implementation of the guidelines of the plenary session of the Political Bureau of the CPC Central Committee and the important speeches made by Comrade Deng Xiaoping during his inspection tour to southern China. We should firmly seize the current favorable opportunity to further emancipate the mind, attend to practical work, pioneer undertakings, boldly make breakthroughs, and energetically create a new situation in reform, opening up, and economic construction of the municipality. The municipality as a whole should conscientiously implement the guidelines of the instructions of the central authorities and should firmly implement the various arrangements made at the eighth enlarged plenary session of the fifth municipal party committee and the sixth session of the 11th municipal People's Congress. At the same time, in line with the demand of the new situation, the municipal party committee and the municipal government offered the following several suggestions on further accelerating the pace of reform and opening up and promoting the economic construction of the municipality.

#### Basic Goals and Overall Arrangements

1. We should ensure that the municipality's economy will embark on a new stage in an even better and faster manner.

Further accelerating the municipality's economic construction is an extremely urgent and acute issue. Stagnation leads to backwardness, and slow-speed development also leads to backwardness. We should give enterprises full authority to accelerate their development, on the

prerequisite of stressing efficiency, quality, and export-oriented economy, to ensure that the entire economy of the municipality will embark on a new stage and the task of quadrupling the 1980 GNP will be fulfilled ahead of schedule. The various major tasks and targets defined in the Eighth Five-Year Plan should all be overfulfilled in order to lay a solid foundation for even quicker development of the economy and to explore a road of economic development characterized by both a high growth speed and good efficiency, which will make the people affluent even more quickly.

2. The basic goals of the acceleration of reform and opening up.

We should bring along reform with opening up and promote opening up with reform. We should promote and realize large-scale development through large-scale opening up. After the endeavor of 10 years or even longer, we should establish a social economic system with relatively strong competitiveness in the world; establish an economic system and an operational mechanism which follow the international practice and are conducive to linking the domestic market with the world market; and gradually build Tianjin into the financial, commercial, and trade center of north China, into a multipurpose industrial base applying advanced technology, and into a modernized international port city which cooperates with northeast, north, and northwest China and is oriented to the demands of northeast Asia.

3. Overall arrangements for the opening up of the entire municipality.

Adhering to the principle of opening all of the urban districts, coastal areas, and rural areas to the outside world, with the focus on rapidly developing the existing bonded area, economic and technological development zones, and new technology industrial parks, we should pay attention to building the coastal development belt, with the processing of export products and international trade as being predominant; building the development belt along the Hai He, with an emphasis on heavy industry and the chemical industry; building the development belt along the expressway, with an emphasis on new- and high-tech industries; building the downtown areas of the municipality, with an emphasis on the tertiary industry, such as financial, commercial, and information trades; and building the rural open areas, with small economic development districts as the backing. Through the spotlighting and cooperation of the various development belts and open areas, we should bring along the readjustment of the industrial structure and the reorganization, renovation, and development of old enterprises and should give rise to a pattern of opening the entire municipality to the world in all directions.

#### We Should Grasp Favorable Opportunities To Extend the Degree and Expand the Spheres of Opening Up

4. We should speed up the development of the bonded zone, the economic and technological development

zones and the new-tech industrial parks and be sure that they mutually complement each other's advantages and promote the development of the overall situation.

According to the requirements of international practice, the bonded zone should further improve its functions and perfect its laws and regulations as well as management and service systems. It should firmly attend to the construction of the enterprises that have been registered and ensure that these enterprises will go into operation on schedule. It should continue to invite both Chinese and foreign businesses, pay attention to introducing foreign big corporations, give prominence to its special functions as a bonded zone, and establish an advantageous position in the international entrepot trade.

The economic and technological development zones should adopt various kinds of development forms, speed up development, expand the scale of development, bring in key enterprises, and maintain a high development speed. They should ensure that in five years or so, their development areas, foreign capital use volume, and foreign exchange earnings all increase by more than 100 percent over those of 1992.

The new-tech industrial parks should become an incubator for new- and high-tech industries of the municipality and help promote the establishment and development of new- and high-tech industries. In the foreseeable future, we should give priorities to developing and building Houjiatai and Wuqing industrial zones and establish, as soon as possible, a group of new and high-tech industries there. The new-tech industrial parks should fully display the advantages of being capable of linking science with industry and foreign trade and gradually establish new mechanisms suitable to the development of new- and high-tech industries.

##### 5. We should make plans for the "three-belts" and strive to make an early start.

The targets for building the coastal development belt are to vigorously develop the export processing industry and international trade; to form several zones that are different in their functions, mutually supplement each other's strong points, and operate according to international practice; and to build the coastal development belt into one that opens itself wider to the outside world. Regarding the wasteland and the state-owned land to be developed in the belt, we should develop them with the funds collected by ourselves or both domestic and foreign funds or let foreign businessmen develop these areas on a contract basis. According to these targets and principles, we should make comprehensive plans successfully and, while doing this, carry out development and invite business simultaneously. We should step up efforts to start construction of the planned financial and trade area and strive to turn it into a financial and trade sub-center of the municipality and a residential area for foreigners in three years. In line with the principle of giving policy priorities, delegating powers to lower levels, and strengthening leadership, we should speed up

construction of the infrastructural facilities and economic development in Tanggu District and ensure that it perfects its functions as soon as possible so that the district can suit the situation of large-scale opening up in the coastal areas.

The targets to build the development belt along Hai He are to focus on developing the import substitutes for heavy industry; to make a good plan for coordinating the industrial arrangement with the construction of infrastructural facilities, such as communications and energy facilities; and to strive to develop a group of new projects with high starting points.

To build the development belt along the expressway, we should proceed from reality, make reasonable arrangements, continuously make expansions on the basis of the Houjiatai and Wuqing industrial zones, and gradually establish it into a relatively centralized new- and high-tech industrial belt.

##### 6. We should speed up the construction of financial and commercial centers in line with the transformation of the old urban districts.

From now on, the urban districts should vigorously develop the tertiary industry and gradually set up wholesale trade centers, shopping centers, financial centers, and information centers in service of the whole country, with the focus on serving Northeast China, Northwest China, and North China. To realize this goal, we should fully mobilize the enthusiasm of all fronts, open various channels and adopt various measures to bring in domestic and foreign capital, and build a group of facilities in service of the development of the tertiary industry. In a short period of time, we should firmly attend to building a group of national or regional markets of the first category for the wholesale of iron and steel, furnace burden, grain and oil, medicines, farm products, industrial products, sugar, cigarette, liquor, and meat. We should bring into play the advantages of various districts and counties to perfect, expand, and build a group of regional country fair markets with their own characteristics and turn them into trade centers where large-scale collection and distribution of goods are conducted. We should firmly attend to rebuilding key commercial districts in Binjiangdao, Xiaobailou, Nan-shi, Nanlou, Dongbeijiao, East Railway Station, and West Railway Station and build a group of large commercial and trade facilities so that they will become reasonably distributed and high-class shopping centers. We should rebuild or build financial streets and develop foreign exchange trade, stock exchange, and use of short-term loans between banks. We should use both public and private funds to develop information and consulting industries, commercialize information, and gradually establish scientific and high-quality information networks.

##### 7. We should open up small economic development zones and speed up the development of the rural export-oriented economy.

A small economic development zone focusing on developing the export-oriented economy should be built in the four areas of Dongli, Xiqing, Jinnan, and Beichen and in five counties and three coastal districts. The municipal government will delegate to districts and counties the power to transfer land use rights and to examine and approve new projects, relax the restrictions of the policies on bringing in domestic and foreign capital, and allow the districts and counties to develop with their efforts and conduct reform with their own funds in line with the unified requirement and planning of the municipal government so that the economic development zones will soon take shape.

The rural areas across the municipality should bring their land, labor, and local product resources into full play, develop the intensive processing of natural resources, and speed up the development of the agriculture that can earn foreign exchange and create good economic results. The town and township enterprises where conditions permit should rapidly shift the focus of development to the export-oriented economy; positively develop the enterprises that integrate agriculture with foreign trade, technology, and industry and the three types of foreign-funded enterprises; bring in advanced technology, equipment, and management methods; and strive to upgrade their quality and increase their economic results. All districts and counties should study ways to use well various preferential policies and rights and make good coordination between the "three zones" and the "three belts." All departments concerned should further create conditions for and serve the development of the export-oriented economy in rural areas.

**8. We should use foreign capital more boldly to transform old enterprises.**

We should encourage state-owned industrial enterprises, particularly large and medium-sized key enterprises, to transform old enterprises with the funds totally or partly provided by the state-owned industrial enterprises in the forms of joint investment or cooperation. According to the industrial policy and the overall arrangement for structural readjustment, each bureau should step up efforts to list a group of enterprises to be transformed and attract the foreign firms that have real strength to cooperate in the transformation. In order to promote this work, we may properly readjust the relevant policies in line with the principle of preserving the existing fixed assets and invigorating the increased fixed assets and give all manner of support to the transformation of high-and new-tech enterprises and key old enterprises. Regarding the surplus personnel resulting from the joint investment or cooperation of enterprises, we should widely open up avenues and make active efforts to arrange jobs for them. Departments at higher levels should adopt proper measures to help them develop the tertiary industry and allow them to enjoy the relevant preferential policies of the municipal government.

During the next few years, the municipal authorities should realistically provide jobs for 200,000 surplus

workers. The basic principle is "not to give" and "not to take," which means that they may find out a solution for their own wages and income through various forms and that the profits they create will not be taken by the government.

**9. We should decontrol the real estate market.**

On the premise that the first-level land markets (for the transfer of state land use right) are put under the centralized management of the municipal government, we should comprehensively decontrol the second-level markets for real estate development. In accordance with the Tianjin Municipal overall plan for urban construction, the economic development plan, and the principle of adopting unified policies, we should rely on all channels to invite business and attract funds from foreign countries, other localities, and all trades and professions of Tianjin Municipality. Domestic, foreign, or municipal units, if conditions permit, may develop the transferred tracts of undeveloped land and build infrastructure facilities there, or they may engage in real estate development and business. The development of real estate must be coordinated with the readjustment of the industrial structure, the renovation of the old city proper, and the building of infrastructure facilities.

Land transferred to foreign investors which has been developed and constructed may be transferred again, leased out, or inherited in line with the planned usage of the land and relevant stipulations. Foreign businessmen who develop advanced scientific and technological projects and projects on exports of products or transform old enterprises on this transferred land may enjoy more preferential policies in the payments of land utilization fees and taxation. In the management of foreign exchange, more convenient terms will be provided to the foreign businessmen who engage in real estate business.

We should step up our efforts to formulate and promulgate relevant policies, laws, and regulations, improve the management system, further formulate plans for the 57 tracts of land which have been designated for transfer, and invite business in a planned and step-by-step manner.

**10. We should actively make preparations for establishing joint ventures engaged in retail sales.**

We should strive to speed up all preparatory work, step up efforts to formulate implementation plans, determine as quickly as possible the targets with which to cooperate, and report them to the state relevant departments for approval. All relevant departments should take the initiative in coordination, provide active support, and create a good policy environment and conditions for the establishment and normal operation of the joint ventures.

**11. We should develop foreign trade through various channels and forms.**

We should appropriately expand the degree of the reform of the foreign trade system; gradually enable foreign trade to enter the path characterized by unified policies, competition on an equal basis, sole responsibility for own profits and losses, integration of industry and foreign trade, implementation of the agent system, and unified approach to trade relations with foreign countries; and manage foreign economic relations and trade more in accordance with international practice and economic methods. In line with state stipulations, we should actively strive to win approval from pertinent departments of the state for the import and export management right given to production enterprises, enterprise groups, companies undertaking contract projects abroad, and commercial enterprises, if their conditions permit and if they have the need; actively promote economic associations of foreign trade enterprises with industrial, commercial, technological, and agricultural enterprises and inter-regional cooperation and coordination; and establish a number of joint companies that combine foreign trade with manufacturing and foreign trade with domestic trade. We should consolidate and develop the existing foreign trade markets; further widely open up international markets, including those in southeast Asia, the countries of the CIS, North Europe, Middle East, Africa, and Latin America; and make big headway in developing border trade and the trade with neighboring countries. We should readjust, strengthen, and develop the organizations stationed in foreign countries and rapidly select key countries and regions in which to establish chain stores, agencies, and cooperative trade organs. We should give awards to encourage the units and personnel engaged in foreign economic relations and trade to open up the overseas markets in the areas where conditions are arduous. We should further develop labor service export trade. We should embrace the concept that Tianjin is a big port. While exporting Tianjin-made products, we should exert great efforts to render good service to attract increasingly more brotherly areas to develop import and export business in Tianjin so as to expand the export scale of the port.

**12. The enterprises where conditions permit should be encouraged to develop trans-regional and trans-national businesses.**

If conditions permit, foreign economic and trade enterprises, industrial and commercial enterprises, communications enterprises, construction enterprises, town and township enterprises, scientific research units, and designing institutes should make active efforts to establish enterprises outside the municipality or in foreign countries. The units and personnel engaged in business in other places should fully use local policies and adopt flexible management methods to carry out work. Simultaneously, they are allowed to base their income on the economic results of enterprises. We should try every possible means to create favorable conditions for the enterprises stationed in foreign countries to operate according to the international practice. We should focus

our efforts on resolving the issues concerning the limits of the power for reinvestment of the enterprises stationed in foreign countries, the channels for loans, and the procedures for screening and approving the multiple entry and exit of the personnel sent to serve abroad. We should pay particular attention to relaxing the restrictions of policies and mobilizing, to the maximum, the managerial enthusiasm of the personnel transferred to foreign countries.

**13. We should give full scope to Tianjin's role as a port city to develop tourist trade.**

While perfecting the existing tourist spots, we should positively exploit various kinds of tourist resources according to the special characteristics of the municipality, including those for natural scenery, human history, and medical treatment and recuperation, and gradually establish a downtown tourist area focusing on the scenic areas along Hai He, the Jixian County tourist area which boasts many scenic spots and historical sites, and the Tanggu coastal tourist area characterized by the port and bay. We should fully use the municipality's advantages of having ports and convenient transportation facilities to open up new tourist programs and to attract increasingly more tourists in Beijing and various tourist areas to visit Tianjin. We should pay close attention to building a group of shopping centers, recreation centers, medical and health centers, and living service facilities for foreigners. We should study ways to build a aquarium in the coastal area, a sports club, an amusement palace for foreign guests, the Tianta tourist garden, the Tuanchow scenic site, and the Guangang forest park. We should realistically do a good job in the decoration of night scenes. Before National Day, we should basically finish decorations on Heping road, Binjiangdao, the downtown districts along Hai He, and more than 1,000 big public buildings and commercial centers. Shops, night markets, recreation centers, and buses should extend their service hours accordingly, improve their service, and make the night scene more lively. We should coordinate the tourist industry with the large-scale economic, trade, and cultural activities held by our municipality to attract both domestic and foreign tourists.

**14. We should invite both domestic and foreign business in an all-round manner.**

In inviting business, our municipality should adhere to the principle of establishing contacts with all sides, promoting the entire work, and achieving breakthroughs and should further improve and provide more appealing policies to domestic and foreign investors. Fraternal provinces and cities, all departments and committees under the State Council, and its subordinate enterprises, institutions and units that come to Tianjin to make investment, in addition to enjoying the preferential policies which the State Council has given to Tianjin, may also enjoy further preferential terms which Tianjin will give them in line with its own conditions. Tianjin will also actively provide them with convenience in terms of factory sites, labor services, natural resources,

water and power supply, transportation, communications, custom service, and taxation. Relevant departments should step up their efforts to put forward the projects for which domestic and foreign businesses are invited, formulate specific implementation plans, encourage all social sectors and individuals to extensively invite business through various channels, implement the commission system, and give remuneration and awards to middlemen who successfully bring in investment. We should further raise work efficiency, improve the investment environment, strengthen the functions of foreign investment service center, install professionally competent and high quality cadres with a strong sense of responsibility in all relevant departments stationed in this "center" to assume responsibility for introducing situations, to coordinate business activities, and to render services. This "center" should improve work methods and procedures in line with the international practice, establish a scientific, strict, and highly efficient system to screen and approve projects, and clearly define the powers to examine and approve the investment projects. The relevant departments and personnel will be called to account if they fail to give an official written reply within a time limit, or if they make a project fall flat without a proper reason.

#### We Should Boldly Promote Reforms and Strive for Greater Breakthroughs

15. We should exert efforts to change the enterprise operational mechanism and attend to the urban comprehensive supporting reforms in an all-round manner.

The relevant departments of the State Council have clearly defined that our municipality, as a pilot unit for carrying out the urban comprehensive supporting reforms, should make full use of this factor to accelerate the pace of all sorts of reforms in our municipality in an all-round manner.

We should now pay close attention to the priority of changing the enterprise operational mechanism, conscientiously implement the "enterprise law," and enable enterprises to rapidly meet the demands of the socialist market and to realistically become commodity producers and managers that operate independently, assume sole responsibility for their own profits and losses, develop through their own efforts, and regulate themselves. The key to changing the operational mechanism is to implement the decision-making power of enterprises, of which the focus is the personnel and labor right, the wage and bonus distribution right, the price fixing right, the investment policymaking right, and the import and export business right. The powers which have already been explicitly given to enterprises must be implemented in places where needed, and no department is allowed to withhold or change them. Continued efforts should be made to expand and do a good job in reform experiments of state large and medium-sized enterprises and expand the experimental scope on the basis of the previous two groups of 117 enterprises. Our municipality has now adopted various forms in changing

the enterprise operational mechanism such as "one plant two systems," "new systems for new plants," "shareholding system," "system whereby enterprises pay tax plus a percentage of profits," and "input and output overall responsibility," which have been proved successful through practice. Enterprises across the municipality, if their conditions permit, may select their own reform forms, and the various forms which they adopt may overlap. Meanwhile, we should formulate policies, create conditions, promote the development and expansion of advanced enterprises, and establish enterprise groups if conditions permit. We should do a good job in organizing the second group of major money-losing enterprises to comprehensively reduce or end deficits and resolutely order enterprises with no hope of ending deficits to close down, suspend production, merge into other enterprises, or change their line of production. We should also allow enterprises in other localities and the three types of foreign-funded enterprises to come to our municipality to merge with our enterprises.

To ensure that operational mechanisms of enterprises will be changed, we should carry out the reforms in the fields of planning, finance and tax, employment, prices, distribution, social security, and in government functions. At the same time, we should strive to smash those rules and regulations which prevent enterprises from changing their mechanisms, bring various management channels into better balance, and make greater efforts to improve work efficiency.

16. We should successfully carry out experiments for the shareholding system.

In the near future, the municipality will approve a number of industrial, commercial, communications, and construction enterprises, which are up to requirements, to carry out the shareholding system; begin preparations for issuing the special Renminbi shares (B shares); and choose a few enterprises, which enjoy a good reputation and have great influence throughout the country, to openly issue shares which will be allowed to go on the market in other localities. Focusing on the experimental work, we should intensify research and make good preparations in various fields, including drawing up related rules, regulations, and policies as quickly as possible, establishing and perfecting the system on management of state-owned assets and the system on management of reforms, setting up such special agencies as assets appraising, reputation grading, and law consulting agencies, strengthening personnel training, and so on. We should prepare for establishing the Tianjin Stock Exchange Center and draw up and perfect various rules and regulations as well as rules of operation in order to make the center start service as quickly as possible.

17. We should deepen the monetary system reform.

We should broaden the monetary market and change the situation of the single-channel circulation of the capital. We should strive for state support for our establishing a number of stock companies, financial affairs companies,

and trust and investment companies and for organizing and establishing the inter-provincial joint venture and cooperative financial organs. Attention should be paid to the work to bring in foreign banks (joint ventures) so that such banks will start business as early as possible. We should energetically develop the short-term interbank loans, carry out foreign exchange transaction at competitive prices, and give full play to the role of various kinds of monetary enterprises in raising and lending money. We should make full and good use of credit policies to raise funds by striving for the special loans of the head offices of banks, the funds earmarked for contracting projects, and the loans and investment of various organizations, banks, and groups.

**18. We should promote the experimental work of multi-purpose corporations.**

We should conduct comprehensive management which embraces different localities, departments, and ownership systems by breaking the bounds between domestic and foreign trades, between industry and foreign trade, and between wholesale and retail sales. The Lida Group, which has already begun experiments with the comprehensive management, should be given great support, and its pace of experiments should be accelerated. All policies which should be clarified by the municipality should be done so as quickly as possible. At the same time, we should select some more units to experiment with the comprehensive management and send competent personnel to plan for this work.

**19. We should establish and perfect the social security system.**

The priorities of this work are to reform and establish the old-age insurance system for workers, the free medical service system, and the unemployment insurance system. In the second half of this year, we should pay attention to revising and perfecting the related regulations and plans on the basis of continuously expanding the experiments and should solicit opinions from the general public in order to put such regulations and plans into effect early next year.

**20. We should reform the district and county financial system.**

The general principle for this work is to fully mobilize the initiative of various districts and counties, broaden financial resources, and enhance financial capacity in order to accelerate economic development and urban construction. The basic method is to carry out the system of tax distribution under which the product tax, value added tax, and business tax paid by enterprises and establishments of districts and counties are shared by the municipality and the relevant districts and counties at a fixed ratio, a few types of taxes are delivered to the municipality in a unified way, and all income taxes are retained by districts and counties.

**21. We should comprehensively accelerate reform of the commercial system and gradually form a new pattern of commodity circulation.**

In line with the ideology of developing commerce, circulation, and market on a large scale, we should further extend the degree of reform and strive to achieve fairly big breakthroughs in some important aspects. In retail commercial enterprises, we should comprehensively decontrol their management, prices, worker employment, and distribution and rapidly change their operational mechanism. We should extend the application of individual contract and leasing systems among some of the small retail enterprises. In reforming the wholesale system, we should place the emphasis on decentralizing the accounting procedures, decontrolling management, and implementing the method of linking operational achievements with personal income. The first-level commercial stations should adopt resolute and effective measures to put an end to deficits within a set time limit. Those that show no sign of improvement within this time will be ordered to suspend operation and then should improve.

We should encourage the development of individual and private economies. We should also further supplement and improve the policies in force. The general principle is to relax control over policies, encourage development, strengthen management, and actively provide guidance. The surplus personnel released from enterprises after they have implemented the new labor organization system, personnel of enterprises, institutions, and units who have stopped receiving wages, and the surplus personnel of administrative units and institutions may be allowed to engage in individual business that brings convenience to the people after they have obtained approval.

**22. We should advance scientific and technological progress and promote an integration of science and technology with the economy.**

Developing the municipality with science and technology is the necessity of the endeavors of deepening reform, extending the degree of opening up, and invigorating the economy. According to the economic characteristics of Tianjin, we should give priority to developing industry and enterprises through science and technology and accelerate the pace in developing new products. In line with the demand for the planned commodity economy, and through the in-depth enterprise reform and scientific and technological system reform, we should gradually establish a management system and an operational mechanism that enable science and technology to combine with the economy, and that fully display the role of enterprises as the mainstay in technological progress. After one or two years of efforts, all enterprises across the municipality must further establish and improve the technological development and investment mechanism and the incentive mechanism for scientific and technical personnel and technical workers; strengthen enterprises' technological command system,

technological development system, and information system; and form a new product development system whereby when a generation of products is produced, the second generation is produced on a trial basis and the third generation is studied in advance. We should give better play to the leading role of scientific research units in promoting technological progress, guide and encourage scientific research institutes under the municipal government to reorganize themselves, and gradually establish a number of engineering and technological development centers. We should make use of the scientific and technological advantages of scientific research organs, colleges, and universities in Tianjin to provide a high technological backing for industrial development and technological reserve. We should develop jointly invested, cooperative, and shareholding scientific research organs and the enterprises which are scientifically and technologically advanced, continue to develop nongovernmental scientific research organs, and form a multiform and multilayered development pattern. We should accelerate the change of the internal mechanism of scientific research organs and the enterprises which are scientifically and technologically advanced; give full decision-making powers to them in terms of personnel affairs, worker employment, distribution, and management; implement the all-staff open appointment system in a step-by-step manner; and continue to enhance the strength, vitality, and momentum of scientific research institutes. We should gradually establish a mechanism for increasing scientific and technological investment through various channels; use such policy measures as interest discount, profit sharing, and tax exemption to guide enterprises to invest in technological development and to develop new products; and adopt economic methods to promote the transformation of scientific and technological achievements, to bring in new technologies, and to master, apply, and further develop them. We should develop and improve the technology market, actively attract domestic and foreign scientific research organs, enterprises, and individuals to come to Tianjin to do business and to transfer technologies as commodities, and urge scientific research institutes to merge with enterprises or to develop joint and cooperative business with them.

23. We should give full play to the role of trained people and attract all kinds of trained people from the general public.

We should create conditions in various fields to enable the existing scientists and technicians to each display their abilities so that we can bring their intelligence and wisdom into full play. Wages and bonuses of scientists and technicians of enterprises should be based on their work performance and economic efficiency, and the wages and bonuses of those specialized scientists and technicians who are engaged in developing and researching new products and who work in major scientific and technological posts may be higher than those of ordinary scientists and technicians. Those scientific and technological personnel as well as worker technicians

and crackerjacks at technical innovation who have made outstanding contributions should be given heavy awards, and an exception may be made to upgrade their specialized technical titles. Factory directors (managers) should be encouraged to boldly try and pioneer major undertakings. Those factory directors (managers) who garner support of staff and workers and who have scored outstanding achievements may remain in office continuously within the contracted period even though they have reached the age for retirement. Their income should be based on their managerial results, and heavy awards should be given those with outstanding contributions. We should encourage the personnel of party and government organs, young and middle-aged cadres in particular, to go to the grass-roots areas and enterprises to directly engage in economic work. These personnel may also resign from party and government organs to initiate economic entities. Those who have retired from party and government organs but are still in good health and have professional abilities may lead or cooperate with others in running enterprises or establish enterprises independently, or they may go to enterprises to engage in economic work. Attention should be paid to the pilot work of selecting cadres and managerial personnel from among outstanding workers. We should carry out incentive policies and adopt necessary administrative means to encourage and urge cadres, staff, and workers to study foreign languages and the professional knowledge concerning the export-oriented economy. We should cultivate and perfect the market for trained personnel and support the reasonable flow of personnel.

We should adopt even more flexible methods and even more preferential policies to attract the competent scientific, technological, operational, and managerial personnel of other provinces, municipalities, and central departments and to attract the persons engaged in advanced studies abroad to serve Tianjin and encourage them to lead or cooperate with others in running scientific research institutes and various kinds of enterprises or to run such institutes and enterprises independently or on a contract basis. Scientific, technological, operational, and managerial personnel returning from abroad should be allowed to hold or quit their posts freely. Such personnel should be encouraged to use foreign currency to make investment in and buy shares of enterprises of all kinds in the municipality, to enjoy the same treatment concerning investment as that given to foreign businessmen, and to enjoy appropriate treatment in housing, medical treatment, and placement of family members. In line with the municipality's economic and technological development and the demand for opening still wider to the outside world, we should also attract a large number of well-trained foreign personnel and foreign personnel of Chinese descent, including all types of retired scientists and technicians.

24. We should delegate more power to various districts and counties.

We should make the best possible use of the advantages of various districts and counties and bring into full play

the initiative of various districts and counties in carrying out urban construction, organizing the people's livelihood, developing the tertiary industry, and invigorating the economy. We should delegate even more power to various districts and counties, enhance the vitality of districts and counties, and further harmonize the relations in the fields of finance and tax, planning, foreign economic relations and trade, labor and personnel, and industry and commerce. The power that should be delegated to lower levels should be delegated. At the same time, some industrial enterprises which are more suitable to be run by districts should be put under districts. All districts and counties should also simplify procedures, delegate power to enterprises, and do a good job in coordination and service.

#### 25. We should change government functions.

Government organs at all levels and all economic management departments should persistently delegate all power to enterprises that should be delegated, relax control over enterprises, and allow them flexibility in line with the demand on reform and opening up and in line with the principles of separating government administration from enterprise management, controlling the macroeconomy, and decontrolling the microeconomy. At the same time, relevant policies and measures should be adopted to ensure the coordination of the power delegated to enterprises. Attention should be paid to strengthening the local macroeconomic regulation and control, and a good job should be done in planning, coordination, supervision, and service work. We should streamline personnel and administration, change functions, reduce the intermediate links in work procedures and the levels of management, and raise work efficiency. In line with the arrangements and demands of the central authorities, we should start studying the ideas and plans concerning organizational reform. Where possible, government organs may carry out experiments in this reform ahead of others.

#### **Accelerating the Construction of Transportation, Energy Resources, and Urban Infrastructure**

##### 26. We should give full play to the key role of transportation facilities.

In line with this demand, we should accelerate the construction of subsidiary projects, constantly perfect their functions, and realize the large-scale through transport network linking sea harbors, airports, the continental railway bridge, and highways to enhance the comprehensive transport capacity, meet the demands for developing the export-oriented economy, transit trade, and entrepot trade, and better serve the provinces and municipalities in the hinterland.

##### 27. We should make good use of the funds earmarked for the maintenance of harbors and raise funds through diverse channels at home and abroad to accelerate the construction of harbors and the railways and highways to the harbors.

During the Eighth Five-Year Plan period, focus should be put on building Nanjiang wharf and on conducting appraisals for the development of the Beitang Harbor and the construction of the industrial port. Through hard work, we should gradually build Tianjin Harbor from a commercial harbor into a modernized multipurpose international harbor characterized by its multiple functions.

##### 28. We should strengthen the urban areas' function as a carrier.

We should complete the construction of the Beijing-Tianjin-Tanggu Expressway on schedule with good quality. We should rapidly renovate and build the Tianjin sections of the Beijing-Fuzhou state highway, the Beijing-Tangshan state highway, and the Shuangguang state highway as well as the coastal defense highway, the 11 municipal-level highways, the Tianjin Bus Terminal, and the hub of railway transportation. In urban traffic service, attention should be paid to improving the traffic situation in the three ring roads and the 14 trunk bus lines. We should utilize the third batch of Japanese loans to expand the local telephone capacity and to increase the international long-distance communications lines. We should speed up the construction of water plants, sewage treatment plants, and the third coal gas plant.

##### 29. We should take full advantage of the existing traffic facilities.

We should open new domestic and international air routes and scheduled flights, increase the number of runs of trains, and develop the transportation on the continental railway bridge. We should organize and establish airline companies and transport fleets. We should take full advantage of the convenient conditions provided by the opening of the shipping service to Japan and South Korea and continue to open and expand the international transport business with neighboring countries.

##### 30. We should strengthen the construction of the power industry.

We should quicken the construction of Dagang, Junliangcheng, Jixian, and Chentangzhuang Power Plants, which are covered by the Eighth Five-Year Plan, in cooperation with other provinces and municipalities and with the funds raised by issuing shares and bonds. We should strengthen the early-stage preparatory work for the building of Yangliuqing Power Plant and the third-phase project of Dagang Power Plant. We should map out programs to utilize foreign capital to build Beitang Power Plant and the second-phase project of Jixian Power Plant.

#### **We Should Creatively Carry Out Our Work and Implement Various Tasks to the Letter**

##### 31. We should emancipate the mind and have the daring to experiment.

The key to speeding up the pace of reform and opening up hinges on further emancipating the mind and transforming concepts. Thus, the people from higher levels downward across the municipality should enhance the sense of urgency and enthusiastically and consciously engage themselves in reform and opening up. We should boldly break the bonds of old ideas, daringly experiment with reform in various spheres, creatively carry out our work, and make full, good, and flexible use of policies. From now on, we should give free rein to the things that are conducive to the development of socialist productive forces, the enhancement of the overall strength, and the improvement of the people's livelihood; do the things according to defined policies and regulations; and also experiment with the things according to temporary rules and regulations.

32. We should provide an effective political guarantee and a fine social environment for reform and opening up.

We should further strengthen party building and fully display the party organizations' role as a political core and communist party members' exemplary vanguard role. We should pay full attention to the improvement of party style and party discipline and the construction of the cadres contingent and resolutely oppose corrosive phenomena. We should persistently attend to reform and opening up with one hand and grasp the struggle against various criminal activities with the other, attend to both material and spiritual civilizations, and maintain and carry forward the fine social practice and mental outlook of the municipality. The municipality as a whole should strive to create a relaxed environment that is conducive to reform and opening up as well as to supporting reformers, protecting those who explore, and helping those who make mistakes so that the people will have the daring to do their work and engage in reform. We should further strengthen the overall improvement of social order and strictly deal blows to various kinds of criminal activities. Party and government organs at various levels, including public security and discipline inspection departments, should sum up experiences, carry forward achievements, and have more initiative in serving and submitting themselves to economic construction, reform, and opening up.

33. We should set up and perfect the system of responsibility for leading cadres at various levels.

We should extensively carry out the quota management system, assign personnel to assume sole responsibility for each and every key task, set forth specific work targets and time limits for fulfilling them, regularly make supervision and examination, and sum up the tasks accomplished by leaders at various levels at the end of the year. According to the regulations as set forth in the responsibility system, we should examine and assess the fulfillment of the duties by cadres and reward, punish, promote, or demote cadres according to their performance.

34. We should actively promote a realistic spirit.

To accelerate reform and opening up, we must have both momentum and a scientific attitude and must work solidly, conscientiously and carefully. All sectors throughout the municipality should make real efforts and not false efforts, work in a down-to-earth manner, work more, and speak less. They should do a better job in the macroeconomic regulation and control and enable the entire economy to develop in a coordinated manner. We should now pay special attention to realistically changing work styles and strictly avoid formalism and bureaucracy. Leaders at all levels, particularly principal leading comrades, should concentrate their main energy on key work, go deeply to the grass roots and to the reality of life, unceasingly study the new situation and new problems emerging in the new situation, think of new tactics and methods, and sum up new experiences. It is necessary to conscientiously and speedily carry out policies, be quick and resolute in action, and oppose delay and hesitation in work. When the work is determined, we must do it and accomplish it. We should oppose the practice of holding discussions without making solutions or making solutions without taking actions. All sectors and departments across the municipality should embrace a sense of respect for the overall situation, support and cooperate with each other, and exert joint efforts to carry out reform, opening up, and economic construction in the whole municipality.

35. We should further strengthen propaganda on taking economic construction as the central task and on accelerating reform and opening up.

Firmly seizing the favorable opportunity, accelerating the pace of reform and opening up, and striving to push the economy to a new stage in a better manner and at a quicker rate are the current strategic tasks of the whole municipality. Party and government leaders at all levels, propaganda departments, press and mass media units should accurately grasp this emphasis and carry out propaganda and create public opinion in line with this subject. We should specifically carry out ideological and theoretical propaganda on emancipating minds and changing concepts, guide the masses of cadres to profoundly understand the guidelines of Comrade Deng Xiaoping's important speeches, comprehensively implement the party's basic line, and more consciously participate in and support reform and opening up. It is necessary to voluntarily, actively, and vividly publicize domestically and internationally Tianjin's good investment environment, its principles and policies on reform and opening up, and its major measures and achievements, and further expose Tianjin to the world. We should actively sum up and publicize the new things and fresh experiences emerging in the course of reform and opening up, pay special attention to publicizing typical cases, sum up the experiences of a group of advanced units and individuals who have the courage to explore new ground, to support reform, and to make outstanding achievements, commend advanced units, set examples, and create a good ideological environment and public opinion.

## REGIONAL

36. We should seize the opportunity and realistically guarantee the implementation of all sorts of work.

Some of the aforementioned suggestions have already been put into practice and yielded initial results, and others must be further studied so as to prepare for the formulation of plans. The municipal party committee and government have called on leaders at all levels and various relevant departments to clearly understand the new situation of reform and opening up, spare no efforts

to carry out all tasks with a high sense of historical mission, responsibility, and urgency, act in line with the municipal plans and demands, start what we should start and deeply carry out what we should deeply carry out, strive to push all fields of work forward, and guarantee that they will be accomplished on time and with good quantity and quality. The municipal party committee and government will organize special forces to inspect the implementation at regular intervals.

### Recent Development of Li-Hao Friction

92CM0351A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 274, 13 Jun 92 p 21

[Article by Hsieh Chung-liang (6200 1813 5328): "Feelings Freeze Again Between Li Teng-hui and Hao Po-tsung"]

[Excerpt] [passage omitted] The following has been revealed by a high-ranking figure of the party: On the eve of the second anniversary of President Li Teng-hui's inauguration on 20 May, Hao Po-tsung publicly extended his congratulations to and reiterated his support for Li Teng-hui through the media. On 20 May before the end of a Central Standing Committee meeting, Hao Po-tsung suggested that all high-ranking party and government officials present on the occasion, including the Standing Committee members and those attending the meeting as observers, stand up and clap hands to show respect to Li Teng-hui. Amid the hand-clapping greetings, Li Teng-hui also rose from his seat, and said: "Thank you, everyone!" Then he immediately left, and "the atmosphere in the meeting hall suddenly stiffened," described a high-ranking party figure, who attended the meeting.

It is learned that on the eve of 20 May, Hao Po-tsung told Li Teng-hui that he would give a banquet for the president the next day as an expression of congratulations. He said that he invited Liu Sung-fan, president of the Legislative Yuan; Lin Yang-kang, president of the Judicial Yuan; Huang Tsun-chiu, president of the Control Yuan; and Kung Te-cheng, president of the Examination Yuan; the three secretaries general, namely, Sung Chuyu, secretary general of the Kuomintang Central Committee; Chiang Yen-shih, secretary general of the Presidential Office; and Chiang Wei-kuo, secretary general of the National Security Council; as well as Chiang Chung-ling, chief of staff of the Presidential Office. Li Teng-hui graciously declined the offer, saying that it was not appropriate for him to receive congratulations because the task of amending the constitution would not be completed by 20 May.

Sources said that after Li Teng-hui declined the offer, Hao Po-tsung, acting on his own initiative, consulted with the presidents of the other four yuans, the three secretaries general, and the chief of staff of the Presidential Office to choose another date for the banquet after the completion of the task of constitutional amendment. At first, the date was tentatively set for 2 June. Hao Po-tsung purposely avoided choosing 1 June because it was the second anniversary of his premiership. Later, because Liu Sung-fan had to leave on 2 June for Brazil to attend the "Earth Summit," someone suggested that the banquet be held on the evening of 1 June, the second anniversary of the premier's assumption of office, so that it would serve the dual purpose of congratulating both the "two Lis" and Hao. While Hao Po-tsung neither consented nor disagreed with this suggestion, a final decision was made to hold the banquet on the evening of

1 June at the Taipei Guesthouse. Spouses were also invited to the banquet to attenuate the unnecessary political atmosphere.

The banquet, it is said, began about 1850 and ended about 2020. At a proposal made by Examination Yuan President Kung Te-cheng, the presidents of the five yuans, the three secretaries general, and the chief of staff of the Presidential Office all rose to give a toast to Li Teng-hui and Li Yuan-tsung. The "two Lis" returned the toast. The atmosphere was not bad.

Then, Lin Yang-kang proposed a toast to Hao Po-tsung. Except Li Teng-hui, who did not stand up due to his head-of-state status, all rose to their feet and raised their glasses to toast Hao. At that moment, Li Teng-hui did not raise his glass to join the toast, creating a rather odd scene.

In contrast with this, it is revealed that Hao Po-tsung, after receiving the toast, proposed that all drink another toast to the success of the overseas visits and the pleasant journeys of Liu Sung-fan and Lin Yang-kang, who were slated to leave on 2 and 17 June respectively. This time Li Teng-hui raised his glass and joined the others in toasting.

That evening, it is said, Lin Yang-kang used the method he had put away for a long time, known as the "surface tension" method, to urge others to drink, and toasted everyone at the banquet. Hao Po-tsung also used his specific method to toast the guests of honor, Li Teng-hui and Li Yuan-tsung. Throughout the banquet, however, Li Teng-hui said nothing expressly as praise and encouragement to Hao Po-tsung, who reached the second anniversary of his premiership. Li Teng-hui did not even touch the subject.

According to high-level personnel in political circles, the 1 June banquet at the Taipei Guesthouse was the first relatively formal feast that Hao had hosted for Li since the Third Plenary Session of the Kuomintang Central Committee. It seems that the frustrations and criticisms Li Teng-hui encountered during the Extraordinary Session of the National Assembly were linked more or less to Hao Po-tsung's side. So it is understandable that the gesture made by Hao Po-tsung received no warm response from Li Teng-hui. [passage omitted]

### Prospects for Investment on Mainland

92CE0532A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 6, 1 Jun 92 pp 37-39

[Article by Shih Cheng-hsin (0570 2973 1800): "Taiwan Banking Business Entry Into the Mainland Market"]

[Text] A series of actions and statements by the Taiwan Ministry of Finance, the Central Bank, and the Securities Control Commission make the opening of finance and securities exchanges between both sides of the Taiwan Strait a likely prospect within the near future. Without doubt, Taiwan's entry into the mainland financial market

**will provide the best support for Taiwan businessmen, enabling them to put to use their commercial expertise with redoubled might.**

Economic and trade exchanges between both sides of the Taiwan Strait are about to enter a new epoch of complete removal of restrictions and liberalization.

In a recent statement to leaders of 15 new banks, Minister of Finance Wang Chien-hsuan [3769 1696 3551] said that the finance and banking business should prepare actively for the opening of the mainland market. This market must be the market of us Chinese. He held great expectations for the new banks, saying that the new banks must "keep their feet planted in Taiwan, concentrate their minds on the mainland, and open their eyes to the whole world."

#### **Wang Chien-hsuan Openly Encourages Investment in the Mainland**

Wang Chien-hsuan said that he held an extraordinarily open view of economic relations between both sides of the Taiwan Strait. For example, the first conclusion of the key points about the indirect transfer of money between both sides of the strait took place before the full removal of policy restrictions. Now, the Ministry of Finance is taking an even more active initiative in studying the removal of restrictions on overseas affiliated banks and even branch banks conducting currency exchange transactions.

He hoped that the finance and banking business would use this trend toward gradual removal of restrictions to prepare with all possible speed for the opening of the mainland market: "The mainland market is a market for the Chinese. We do not want a situation in which the melon is divided by foreign businessmen as soon as restrictions are removed, ourselves receiving only a tiny portion."

Wang Chien-hsuan's remarks may be regarded as the first encouragement from a ministry-level official in recent years to invest in the mainland and develop the market there. Furthermore, the significance of his remarks on this occasion differs from his former remarks on ordinary economic and trade contacts, the level of development rising to exchanges between the finance and banking business on both sides of the strait. One might say that the flow of funds between both sides of the Taiwan Strait may turn into a complete removal of restraints and a liberalization in which each side supplies the needs of the other. His remarks play a substantial role as a catalyst for the development of relations between both sides of the strait.

#### **Real Significance Goes Beyond the "Three Opens"**

A person who understands the development of relations between both sides of the strait as well as the banking business stated candidly that the actual significance of Wang Chien-hsuan's remarks goes beyond the "Three Opens" policy that the Chinese Communists proposed.

His proposal for "financial interchange" was the fourth open between both sides of the strait—the interchange of capital—the importance of which is greater than that of the "Three Opens."

Simultaneous with Wang Chien-hsuan's statement, the Central Bank quite coincidentally announced the intended development of Taiwan as a regional banking system as a means of enlarging the size of Taiwan's financial market outside Taiwan. A broader interpretation of the scope of overseas banking units (OBU) business was spelled out, effective immediately. Not only would banks be able to purchase mutual funds and deal in corporate bonds at their own discretion, but they would also be able to deal in many kinds of new financial commodities including foreign currency letters of credit, letters of advice and mortgages, foreign currency note discounting and honoring, foreign currency security deposit dealings, interest rate exchanges, long-term interest rate agreements, options, and financial futures.

#### **Effect on Taiwan Businessmen Mainland Investment**

The Central Bank's broadening of the international banking business of branch banks, will have most far-reaching effects on entrepot trade on both sides of the strait and financial transactions following Taiwan businessman investment in the mainland, and it will be particularly important for the banking businesses' opening of the mainland financial market. Because virtually all three-way trade and individual investment on both sides of the strait today is of a third territory character, such as via Hong Kong, in the future, mortgages, borrowing, and various kinds of foreign exchange business can all be conducted legally through branches of Taiwan banks doing business abroad without the need to go through a Hong Kong or an American bank. This holds positive significance for widening the size of Taiwan's financial market abroad. Likewise, mainland China business firms can use the branches of all Taiwan banks in the international banking business to handle international trade matters.

Formerly, whenever Taiwan banks did business relating to customers outside Taiwan in the huge foreign economic relations and trade market on both sides of the strait, they had to do it surreptitiously. Now that the Central Bank has explicitly broadened the range of business of branch banks internationally, providing a direct listing of the kinds of business that may be conducted, financial business contacts between both sides of the strait are completely legal.

#### **Paving the Way for Securities Exchange**

In addition to the Central Bank's formal response to Wang Chien-hsuan's remarks on the development of the "Fourth Open" on both sides of the strait, the Ministry of Finance's Securities Control Commission recently took some extremely unusual actions regarding securities exchange between both sides of the strait as though paving the way for securities exchange.

Reportedly, the securities exchange problems across the strait that the Securities Control Commission has been mandated to study include the following:

- Do people coming from the mainland to work or establish residence in Taiwan have to open an account with a securities trader to buy and sell negotiable securities?

May Chinese Communist investment houses in Hong Kong or elsewhere apply to invest in the Taiwan stock market?

May Taiwan securities traders sell mainland shares or engage in the buying and selling of mainland shares?

How can the various stages be worked out whereby the securities business may indirectly invest in the mainland?

How should the securities business (including securities exchanges, all associations concerned, and securities traders) organize for the direct exchange of information and techniques with mainland units concerned?

May securities traders hire personnel employed in the mainland securities business or be hired to go to the mainland to serve in the securities business?

What mediation organs and mediation procedures need be provided should disputes over trading occur when residents of Taiwan invest in the mainland stock market?

May the securities exchange set up a pipeline connecting it with the securities exchanges in Shanghai and Shenzhen on the mainland?

How will Taiwan's security control laws be applied to the mainland securities business and negotiable securities?

Suggestions for a revision of "stock handling standards" to solve problems with the transfer of ownership and the exercise of shareholder rights when people on the mainland receive Taiwan shares through inheritance or bequest.

In addition, abolition of "Regulations on the Exercise of Taiwan Corporation Shareholder Rights by Shareholders in Overrun Areas During the Rebellion Suppression Period" is recommended, the shares of shareholder in the "overrun areas" returned to their original owners on the mainland. However, how people on the mainland will exercise their shareholder rights is a matter requiring study.

#### **Securities Control Commission To Draw Up Regulations for Contacts Between Both Sides of the Strait**

Persons concerned have said that in view of the unstoppable tide of exchange and investment on both sides of the strait, the Securities Control Commission has changed from its former passive "impossible-to-control" attitude about securities exchanges across the strait to

active control. The Securities Control Commission will draw up control regulations regarding the exchange of securities across the strait removing restrictions on investment in the mainland by the securities business depending on the kinds, nature, and amount of money involved.

The Securities Control Commission may also develop a fund through the Republic of China Securities Market as a corporate financial body, a group traveling to the mainland to collect pertinent security information for use in the removal of restrictions on exchanges between both sides of the strait.

Judging from a series of actions and statements from the Ministry of Finance, the Central Bank, and the Securities Control Commission, it is clear that the removal of restrictions on financial and securities exchanges across the strait will likely occur in the near future, and that capital markets on both sides of the strait will accelerate the interflow of capital.

#### **China Trust Bank Moves Fastest**

The bank that has moved fastest on financial exchanges between both sides of the strait seems to be the Kuomintang-owned China Credit Bank. Since the time it began doing business to the present day, the China Credit Bank has acted as an agent for nearly \$1 million of mainland remittance business.

The China Credit Bank has said that relations and contacts across the strait are close, and that the demand for the remittance of money between Taiwan and the mainland is increasing with each passing day. During early 1992, the China Credit Bank began cooperation with the Foreign Exchange Bank in the remittance of money to the mainland. It currently handles remittances in two ways. A telegraphic transfer takes only seven days to reach the recipient, a processing fee of NT\$800 charged for each remittance. A mail transfer takes 14 days and costs NT\$500.

In their advance into the mainland financial market, it appears that Taiwan Banks will still have to use Hong Kong as a base, adopting "island hopping" tactics for a gradual advance into the mainland. This is relatively safe, and it is also a relatively easy way of gaining Chinese Communist approval.

#### **Taiwan Businessmen Will Take Off**

A high official in the Ministry of Finance revealed that after Taiwan banks set up branches in Hong Kong, Taiwan businessmen doing business on the mainland will have more funds available. Predictably, the already greatly growing economic and trade contacts between both sides of the strait will grow even more, and the already greatly increased Taiwan businessman investment in the mainland will further expand. Investors even predict that direct contacts between both sides of the strait will soon occur.

China Credit Bank has already set up a Hong Kong Office, and Changhua Bank, First Bank, and Taiwan Bank are also currently preparing to use Hong Kong as a base for advance into the mainland.

The advance into the mainland of Taiwan financial institutions will no doubt provide the best kind of support for Taiwan businessmen. Deputy Minister of Finance Li Chung-ying [2621 0112 5391] said that because of the mainland's strict currency controls, most businessmen find it difficult to borrow money from banks; consequently, Taiwan businessmen in China can only make one dollar on every five dollars, unlike in Taiwan where they can make five dollars on every dollar. If Taiwan banks open branches in the mainland, Taiwan businessmen will be better able to turn their commercial expertise to advantage with redoubled might.

#### **Editorial on Copyright Law Amendment, Implementation**

92CE0512A Taipei CHING-CHI JIH-PAO in Chinese  
24 May 92 p 2

[Editorial: "Copyright Law Amendment and Implementation"]

[Text] On the eve of another round of consultations between Taiwan and the United States on intellectual property rights, the Legislative Yuan passed the Copyright Law Amendment in its third reading on the 22nd. In so doing, it has more than strengthened the hand of Taiwan's delegation at the negotiating table. In both structure and substance the amendment extensively rewrites the existing legislation which was modeled upon the old system in effect in the early days of the Republic of China, amplifying it from five chapters and 52 articles to eight chapters and 117 articles. Therefore it must be considered a complete overhaul of the nation's copyright law and marks a new milestone in our effort to protect intellectual property rights.

Like patents, trademark rights, and trade secrets, copyright comes under intellectual property rights and embodies human intelligence. Copyright law involves a broad area. Not only is it intimately related to the daily life of every member of a modern society, but it also has far-reaching influence on culture, education, science and technology, and the economy. In the Taiwanese economy at its present stage of development, the variety of copyrights has multiplied, as have the many different forms in which copyright is used. Clearly the existing legislation can no longer keep up with the social reality. Internationally, rampant piracy and copyright violations have given us a bad name. Besides, there is indeed a wide gap between international intellectual property rights protection and our own. Consequently, Taiwan has come under enormous pressures in international trade in recent years. If things continue this way, they will work against our drive to acquire the science, technology, and knowledge of industrially advanced nations.

Amending the Copyright Law against this backdrop requires us to give consideration to the internationalization of copyright in accordance with the principle of reconciling private rights with public interests in the area of copyright. Basically copyright is a private right. The purpose of a copyright law is to protect the rights and interests of the writer, encourage innovation, and inspire the individual to make the most of his intelligence and potential. At the same time, it is also the purpose of a copyright law to disseminate knowledge, science, and technology, and reconcile public interests with the development of national culture so that knowledge, science, and technology are shared by all members of society, which would help the passing of culture from one generation to the next. As for the internationalization of copyright, not only must we stop treating the copyright of a foreigner differently from that of a Chinese citizen, we also must raise copyright protection at home to the international level.

From this perspective, the Copyright Law Amendment, while not perfect, largely meets the needs of the current social economic environment. As far as copyright protection is concerned, the Copyright Law Amendment specifically says that copyright includes the writer's human rights and property rights, expands the scope of protection through enumeration, and lengthens the period of protection. In giving consideration to both public use and cultural dissemination, the Copyright Law Amendment strengthens the proper use and enforcement of the authorization system so that a citizen will not break the law easily but will be able to use the work of another person legally and properly. In particular, there are special provisions in the Copyright Law Amendment on the operation of intermediate copyright organizations, which would help balance the property rights accruing to the writer with use rights. When it comes to the internationalization of copyright, the Copyright Law Amendment abolishes registration protectionism, which has been in effect for years, and replaces it with creation protectionism. Restrictions on the foreigner's translation rights are lifted and the principle of equality and mutual benefit is applied to the copyright protection of both citizens and foreigners.

What is more controversial about the Copyright Law Amendment is the decision by the Legislative Yuan during its deliberations to insert Item 3 under Article 36, which explicitly stipulates that the price at which the property rights of a work are transferred and the amount of compensation a writer is paid for the use of his work shall not be lower than the standards set by the agency in charge. This item has caused many people to worry that they might violate the law any time. They think that the item will have a suffocating effect and will not work. Second, most people who deliberately violate copyright law are economically motivated. This fact coupled with pressures from the United States explains why tougher penalties are written into the Copyright Law Amendment, such as longer sentences, higher fines, more severe punishments for repeat offenders, and the provision

enabling the perpetrators of certain copyright violations to be sued. By sharply increasing the relief from copyright infringements, of course, the Copyright Law Amendment may effectively deter crime. On the other hand, if we compare penalties in that piece of legislation with those for other economic crimes, they certainly appear overly severe. There is a host of different opinions on this matter, with some people arguing that we have gone too far in our effort to correct the situation.

These reactions to the Copyright Law Amendment broadly sum up the way our society views intellectual property rights. Basically, intellectual property rights are a concept foreign to our society, not a home-grown idea, as demonstrated by society's slight for and neglect of it and the widespread incidence of copyright violations. Foreign pressures notwithstanding, we never took it seriously. Only when the United States started brandishing Special Article 301 of its Trade Act did people inside and outside government seem to suddenly wake up from their sleep. After languishing in the Legislative Yuan for one and a half years, the Copyright Law Amendment was suddenly rushed through the legislative process to become law before the latest round of Sino-U.S. consultations on intellectual property rights. It is really no wonder that the act over-corrects here and there, a point probably not lost on members of the legislature. This explains why, after adopting Copyright Law Amendment in its third reading on the 23d, the Legislative Yuan passed a supplementary resolution instructing the Ministry of Interior, the agency in charge, to step up the publicity of the new law.

Passing the supplementary resolution is a realistic move. The latest overhaul of the copyright law will have far-reaching effects; yet most members of society have yet to be educated about the notion of intellectual property rights. On the eve of the implementation of the new law, at a time when pressures to retaliate are growing in the United States, now is the right time to launch a vigorous campaign to publicize the protection of intellectual property rights. After the latest overhaul, our copyright law is largely consistent with the international mainstream in structure and direction. However, the purpose of the law is more than to punish the criminal. It also should see to it that the uninitiated do not run afoul of the law by mistake. In the wake of scientific and technical advances, the scope of intellectual property rights has gradually been broadened to include industrial design, country of origin labels, unfair competition, and integrated circuits as well as the more familiar patents, trademarks, copyright, and business secrets. Our legislation must lay down proper rules in these areas. But a task even more worthy of our effort than crafting a well-thought-out piece of legislation is popularizing the concept of intellectual property rights so that it is earnestly incorporated into the behavior of our citizens.

### Restrictions on Foreign Banks To Be Eased

92CE0512C Taipei CHING-CHI JIH-PAO in Chinese  
25 May 92 p 1

[Article by Chang Cheng (1728 2973) and Yu Chih-chin (0060 6400 3830): "Taiwan To Ease Restrictions on Foreign Banks"]

[Text] Studies are under way by the Central Bank and the Ministry of Finance to broaden the scope of operations of foreign banks and the long-term foreign-exchange market in response to American pressure and demands that Taiwan open up its market for financial services and to accelerate the liberalization and internationalization of Taiwan banking.

The U.S. Treasury released an exchange rate report on 12 May charging the Central Bank of China with manipulating exchange rates and strongly hinting that the exchange rate of the new Taiwan dollar should continue to climb. Governor Hsieh Sen-chung [6200 2773 0022] of the Central Bank, however, made it quite clear in his report to the Legislative Yuan a few days ago that given Taiwan's current economic situation, there is no room for any further appreciation of the Taiwan currency. If the Central Bank continues to look upon changes in the exchange rate unfavorably, the adjustment of banking restrictions may well be our principal response to American demands. Among the leading candidates for relaxation are restrictions on the scope of operations of foreign banks and the operations of the long-term foreign exchange market.

As a matter of fact, after the U.S. Treasury released its exchange rate report recently, the Ministry of Finance announced that banks, including foreign banks in Taiwan, would be allowed to enter the short-term securities and credit-card business. This is a timely and concrete response to another complaint in the exchange rate report, namely that Taiwan prevents foreign banks from expanding their scope of operations.

Apart from the Ministry of Finance, the Ministry of Interior also has been studying what further actions it can take in response to U.S. moves.

However, since the matter is so sensitive, Central Bank officials are all reluctant to discuss related issues with people outside.

Asked whether the bank would comply with American demands by raising the maximum amount of foreign exchange that can be remitted from and into Taiwan, increasing the amount of overseas debt a bank can carry, and broadening the scope of long-term foreign-exchange trading, Hsieh Sen-chung said, "Let's not talk about this matter now."

However, one high-ranking Central Bank official has said that after taking into consideration their impact on price stability and the overall economy, the Central Bank

has gradually been easing restrictions on banking operations and foreign exchange control. "Whatever can be loosened has been loosened."

On the other hand, Deputy Director Chang Hsiu-lan [1728 4423 5695] of the Bureau of Banking of the Ministry of Finance has noted that the scope of operations of foreign banks has been enlarged significantly and that there is little room for further relaxation in the near future.

She pointed out that when the Bureau of Banking allowed banks to go into the short-term securities and credit-card business recently, foreign banks were included. Today the scope of operations of foreign banks is almost identical to that of their domestic counterparts. In fact, she claimed, they get "supranational treatment." For example, foreign banks, but not Chinese banks, can handle export loans in American dollars.

Chang Hsiu-lan said that what foreign banks are really after is probably the lifting of some restrictions on their operations, such as the requirement that the total amount of new-Taiwan-dollar deposits they accept not exceed 15 times their operating capital remitted into Taiwan. This too has become a routine demand in the exchange rate report of the U.S. Treasury.

According to Bureau of Banking officials, this issue will come up again in Sino-U.S. trade and economic consultations scheduled for the end of the year. The Ministry of Finance will then decide whether or not to ease the restriction.

Deputy Governor Yu Cheng [0205 2398] of the Central Bank said, "It is Taiwan's goal to liberalize and internationalize banking. But we must do so step by step."

#### **Editorial on Stimulating Investment Enthusiasm**

*92CE0512B Taipei CHING-CHI JIH-PAO in Chinese  
27 May 92 p 2*

[Editorial: "Stimulating Investment Enthusiasm"]

[Text] There is rising concern about the private sector's lack of investment enthusiasm in Taiwan. Not only have agencies overseeing the economy unveiled one action plan after another aimed at stimulating investment, but even President Li has voiced his deep concern about this matter in his discussions with top party and government leaders a few days ago. He has instructed the administrative departments in charge to bring out their collective effectiveness and spur the investment enthusiasm of the private sector.

The background of the slump in investment enthusiasm was analyzed in detail in an editorial in this newspaper the day before yesterday. Here we would like to offer some opinions on how to effectively revive the private sector's investment enthusiasm.

Myriad factors influence private enterprises' investment enthusiasm. Simply put, however, it is a question of

making a profit. If one can buy a piece of land in Taiwan, build a plant, purchase equipment, hire employees of all levels, secure the necessary materials, go into production, and make a reasonable profit, and if a better investment climate is not available elsewhere, industrialists will naturally line up to invest big money in this place.

We are convinced that Taiwan currently offers extremely favorable business development conditions, something many developing nations cannot match. For instance, we have an ample and relatively low-cost pool of mid-level and senior technical personnel in management, trade, marketing, even industrial design. Underdeveloped nations have no such edge and even advanced nations pale in terms of the density of technical personnel. In any case, their manpower is exceedingly costly, which hardly puts them at an advantage when compared to us. Then there is a host of auxiliary conditions which may not be particularly visible, such as the balanced development of the industrial chain, close coordination with peripheral industries, and a functioning and convenient basic infrastructure, which may not exist in full in other investment climates. Certainly, having been born and raised here, local entrepreneurs and businessmen have established a network of personal relationships and acquired a profound understanding of the social milieu. That too is something they may not have elsewhere.

Why then have industrialists been leaving Taiwan in droves for the mainland, Thailand, Malaysia, Vietnam, and even Europe and the United States investing and building plants there while showing no interest in investment opportunities right here at home? As we pointed out in the editorial the day before yesterday, Taiwan's manufacturing industry finds itself in an unusual position today. On the one hand, an economic climate that has long been resistant to restructuring is now suddenly undergoing changes across the board. Many enterprises are too busy just trying to survive to think about expanding the scale of production or investing in new areas of business. On the other hand, after years of being shut out of the service sector as well as the mainland and overseas, Taiwan enterprises today are suddenly swarmed with opportunities. As wave upon wave of Taiwan capital flows into the service sector, mainland China, and other countries, the domestic manufacturing sector has been left in the cold. To spur investment enthusiasm in the manufacturing sector, therefore, we must suit the remedy to the problem.

Of the many difficulties facing the manufacturing industry, some we can do nothing about. Nobody, for instance, can reverse the sharp rise in the value of the new Taiwan dollar. On the other hand, there are many things we can do and should do, but have not gone all out to do. In some ways, in fact, we are doing just the opposite of what we should do. Land is a good case in point. The manufacturing industry requires a substantial amount of land to carry out its productive activities, not in the thriving central business district of some city, but in the remote outskirts and open country far from the

city and yet highly accessible to materials and people. Taiwan does not lack that kind of land, whose use value in most cases is not high. Under the current land use regulations, however, you are free to leave such a piece of land uncultivated, let it lie waste, or turn it into a fish pond, but you cannot put it to industrial use. As for the pipeline in the only industrial zone, that has been blocked and is impassable; it falls far short of meeting industrial needs and has actually become the target of speculators. With problems like these, how can we stimulate investment enthusiasm? Ironically, it is land hoarded as a rare commodity that is now the main source of funds for those interested in investing overseas. For years we have been half-hearted in our effort to solve this problem, made worse over time by frequent policy changes. We may now want to turn the situation around but are not likely to see any improvement in the next few years.

Another element that we never tire of emphasizing time and again is something just as important as land: manpower. The labor shortage in Taiwan's manufacturing industry did not occur overnight. As a matter of fact, it goes hand in hand with the slump in investment enthusiasm plaguing the manufacturing sector and the large-scale migration of manufacturing plants. The close relationship between the two is beyond doubt. But in all these years we heard a continuous chorus from our experts and officials to the effect that labor shortages are just the thing to force industry to upgrade itself. Because of such wishful thinking on their part, they have chosen to stand by and do nothing even as the manufacturing industry is confronting unprecedently severe challenges. Their responsibility for the current lack of inclination to invest and overseas relocation of plants can absolutely not be overlooked. We all understand the side effects of importing foreign labor, but we also know that with effective and sound government management, most negative side effects will have minimal impact. Switzerland is a good example. One-fifth of the work-force of Switzerland is foreign but the social order, quality of life, and technical standard of that country are not what we can even begin to equal. Unless our government thinks admits it is incompetent, there is no justification for our absolute ban on foreign labor.

Finally, many enterprises choose to invest and relocate overseas because our policy does not allow them to make use of low-cost and high-quality elements of production overseas in the most effective way. Today our passive and conservative mainland policy and overseas investment policy have not succeeded in preventing the outward migration of industry but have actually been pushing industry out.

There is still a lot Taiwan industry can accomplish if we quickly adjust policies and laws to eliminate those unfavorable factors, work hard to strengthen peripheral facilities, use existing scientific and technical resources effectively to remove the roadblocks facing enterprises in technical development, and establish an effective marketing channel to overcome the serious restrictions

enterprises labor under because of a limited name brand and an overly small scale of production and marketing. Only if this is what the future has in store for them would Taiwan business owners invest heavily in their native country. We know of no other way to boost investment enthusiasm in Taiwan.

#### **U.S. Pressure on Currency Appreciation Viewed**

92CE0503A Taipei CHING-CHI JIH-PAO in Chinese  
15 May 92 p 2

[Editorial: "U.S. Pressure for Upward Revaluation of the Taiwan Currency is Unjustified"]

[Text] In the morning of the 12th, the U.S. Treasury Department published its report, "International Economy and Foreign Exchange Policy" for the first half of the year, in which it accuses the Central Bank of China of again "manipulating the exchange rate." The under secretary of the said department, Mulford, pointed out at a public hearing before the Banking Committee of the U.S. Congress that Taiwan's huge foreign trade surplus is continuing to grow, and would obviously require some large-scale adjustment, and furthermore that an upward revaluation of the new Taiwan currency [NT\$] would have to play a much more important role in this readjustment. The vociferate pressure by the United States—comparable to the shouting of propaganda in psychological warfare—has sure enough created on Taiwan sentiments of an expected upward revaluation of the NT\$ and indeed driven up its value. This has had an extremely unfavorable impact on Taiwan's economy at a time when the present pace of economic recovery has not yet reached a stage of stability. The governor of the Central Bank of China, Samuel Shieh [Hsieh Sen-chung 6200 2773 0022] very succinctly pointed out, directing his remarks particularly to the core accusation against us—the trade surplus and the growing foreign exchange holdings—that although last year Taiwan's trade surplus had reached \$13 billion, and from January to April of this year had been \$4 billion, after deducting capital outflow, carried-over expenditure, travel expenses for Taiwan citizens, and other such demand for foreign exchange, the supply and demand on the foreign exchange market has more or less balanced out. It would indicate that the trade surplus does not make an upward revaluation of the NT\$ necessary. While the increase of \$10 billion in foreign exchange holdings during the past year is closely related to the \$5 billion interests on exchange holdings and the increase in value of the German mark and Japanese yen on conversion to the dollar, the amounts of Central Bank interventions in the foreign exchange market were extremely small, frequently registered as zero in the foreign exchange market, and the increase in foreign exchange holdings are definitely not caused by Central Bank buying. Apart from this, we have the following strong reasons to regard U.S. pressure for an upward revaluation of the NT\$ as completely groundless:

1) Since the end of last year up to the 11th of this month, the exchange rates of the world's most important currencies to the dollar showed that only the NT\$ had appreciated 2.5 percent, while other currencies declined in value against the dollar by 6 to 13 percent. Thus during the four months and 11 days of this year, the NT\$ appreciated against the Japanese yen by 8.9 percent, against the German mark by 10.9 percent, and against the franc, the British pound, and the lira by from 7 to 17.7 percent. Furthermore, Taiwan's index for consumer commodity prices rose 4.3 percent during the first quarter of this year, which was also higher than the 2.8 percent in the United States, 1.9 percent in Japan, and 3.1 percent in France. The Taiwan currency appears internationally as a super-strong currency. Is the Taiwan economy truly so strong as to need another upward revaluation of currency, as Mr Mulford pointed out?

2) The surplus in Taiwan's trade with the United States has already declined from the high peak of \$16 billion in 1987 to \$8.2 billion last year, the annual average decline exceeded the 10 percent rate which had formerly been promised the United States. Although the trade surplus again increased during January to April this year, the exchange rate of the NT\$ in April this year as against the U.S. dollar had increased 8.1 percent compared with April last year. However, the Japanese surplus in its trade with the United States since the start of this year is also increasing, while the exchange rate of the Japanese yen against the dollar for the last year rose only 3.5 percent. It is obvious that in comparison with Japan, Taiwan has done very well in discharging its obligation to readjust its trade surplus with the United States, notwithstanding the fact that Taiwan's economy in its foundation and level of development is by far much weaker than Japan's.

The increase in Taiwan's overall trade surplus last year and during the four months of this year has come about mainly due to the contribution of a large surplus in exports to Hong Kong. If the Hong Kong portion of the surplus is deducted, the trade surplus last year would only be \$2.8 billion, and during the four months of this year there has even an import surplus occurred amounting to \$1.5 billion, demonstrating clearly that the present export surplus with Hong Kong is a decisive factor in the overall trade surplus. The expansion of Taiwan's surplus with Hong Kong is a trade effect brought about by mainland investments of Taiwanese. It is not at all the result of any unduly low assessment of the NT\$ for the purpose of gaining unfair advantages in trade competition, and must not be taken as justifying any demand for an upward revaluation of the NT\$.

3) The fundamental reason for Taiwan's huge foreign trade surplus is insufficient domestic investment, which is far below private savings, and this causes huge savings surpluses. This problem of an imbalance between the domestic economy and foreign trade has had the early attention of the government. The government has increased public investments to stimulate increased private investments and to thereby reduce the excessive

amount of savings, thus providing a radical solution for the problem of the huge trade surplus, measures which indeed have already had marked results. Be it the excessive amount of savings or the trade surpluses, the proportions of these amounts in the gross national product [GNP] has declined from the highest point of 21.3 percent in 1986 to 7.5 percent last year. The "Six-Year National Construction Plan," which is now being carried out, has as one of its important objectives the more active expansion of public investments and the continued reduction in the excessive amount of savings and in the trade surplus. This way of action has already brought results in the adjustment of the imbalance between the domestic economy and foreign trade. Why would one then want to resort to a large-scale upward revaluation with all its many negative effects!

The above analysis makes it obvious that there is presently no necessity for an upward revaluation of the NT\$, and that the conditions for such a revaluation do not exist. We hope all our countrymen will face the situation calmly and rationally, and will not allow the vociferate and tricky pressure of the U.S. Treasury Department to have its way. Moreover, the central banks of all countries are certainly participating in operations on the foreign exchange market in order to stabilize their exchange rates. The decisive point here is that they should not do so to gain unfair advantages in trade competition. We too expect that the Central Bank of China, when participating in operations in the foreign exchange market, will also uphold this fundamental principle. At the same time, there is also some need for reexamining and accelerating the pace at which we are advancing toward financial liberalization. We are convinced that if the government and the people both will fulfill these two expectations, we shall stand in an impregnable position, even should the United States demand to hold an exchange-rate consultative conference with us.

#### **Editorial Views Exports, Prices, Exchange Rates 92CE0503B Taipei CHING-CHI JIH-PAO in Chinese 20 May 92 p 2**

[Editorial: "Export Surplus, Investments, Exchange Rates, Commodity Prices, and the Six-Year National Construction Plan"]

[Text] In a real society, the variables of the whole are mutually related, and the various links offset each other, creating a well-integrated system. However, in the general way of handling matters, be it the issue of news, or writing a commentary on events, or the formation of policy by the government, the focus will usually be concentrated on one specific variable of the whole, namely the one which at that time attracts attention, and this will create problems of coordination and harmonizing, at times even create conflicts, which are facts that deserve our serious attention.

As to the trade surplus, this reached \$13.2 billion last year and amounted to \$4 billion during the period from

January to April this year. Faced with these figures, the general reaction is partly delight and partly apprehension. The delight is caused by the realization that exports are still flourishing, which in a certain sense indicates that the products of our country are still very competitive in the international market, and that industry still has strong vitality. The apprehension is caused by the fact that the trade surplus remains high, which is of growing concern to the United States and to other countries and leads to pressures on our country to effect a currency revaluation or take other action.

As to investments, the government has increased its investments as it is now promoting the Six-Year National Construction Plan, but since execution of the plan is lagging behind, actual investments are less than those planned, and private investment desire has remained weak, resulting in only 85 billion yuan during the first quarter. Both government and civilian investments together account for only about 17 percent of the gross national product [GNP] during the first quarter, far below the 22.37 percent of last year and only a little better than the record low of 1986. Under these circumstances, the first thing that everybody calls for is the vigorous promotion of the Six-Year National Construction Plan and catching up in its execution, i.e. to really boost government investments. The second call is for the improvement of the investment climate, so as to raise private investment desire.

As to the exchange rate, there was some criticism of our country's foreign exchange policy in an exchange report recently issued by the United States, to the effect that our government still intervenes excessively in the foreign exchange market, and this has evoked a whole string of discussions. Some believe the Central Bank should indeed engage in some self-examination as to whether it has inappropriately interfered in the exchange market. There are also others who believe that there is at present no space and no necessity for any upward revaluation of the NT\$, whether we look at the problem under the aspect of the substantial and effective exchange rate indices or under the aspect of international receipts and expenditures. Some members of our industrial establishment show considerable concern about the possible upward revaluation of the NT\$, because they fear it will seriously affect the international competitiveness of their products and will also constitute a further blow against investment desire, which anyhow is already at a very low level.

As to commodity prices, data published by the Directorate General of Budget, Accounting and Statistics indicate a 4.3 percent increase in the consumer commodity price index during the first quarter of this year, as compared with the corresponding period last year, which is higher than the originally projected 3.5 percent, a fact which has aroused widespread concern among the government and the general public. The Central Bank has indicated that it is giving close attention to the trend in currency supply and the growth of bank credits. The Ministry of Economic Affairs has initiated investigations

into the price of certain commodities, and the Public Transportation Commission has instituted enquiries into the costs of transportation, marketing, and importing of agricultural products, expecting to be able to gain control over those factors that influence commodity prices, and to furthermore control commodity price increases to within set targets.

When describing in the above the reactions of the government and the public to the trends of the various variables of the whole, we have perhaps given convincing statements with regard to the particular variables, but how are things if considered, not under the aspects of the particular and not in a one-sided way, but rather under the aspects of the whole and in a comprehensive way?

What has to have our attention first of all is that the economy of Taiwan is now undergoing a large-scale structural readjustment. As from 1981, Taiwan's trade balance began to change from the former state of fluctuating with sometimes positive and sometimes negative figures, to become stabilized and to show continuously growing positive figures. By 1986, the trade surplus accounted for as high as 21.3 percent of the GNP, which means in every one yuan of income 0.20 yuan were trade surplus, causing a serious outflow of natural resources. At that time, the economic system gradually initiated structural adjustments, the NT\$ steeply increased in value, and domestic demand gradually increased. By 1990, the share of the trade surplus in the GNP dropped to about 8 percent, standing at about \$12.9 billion. The overall economic objective of the Six-Year National Construction Plan, which started last year, is to bring about a further expansion of the domestic demand and a reduction of the trade surplus. The Six-Year National Construction Plan had set a distinct target of \$11.2 billion for the 1991 trade surplus, accounting for 6.3 percent of the GNP. The trade surplus targeted for the last year of the Six-Year National Construction Plan, i.e. for 1996, is \$3.9 billion, which would account for only 1.3 percent of the GNP.

However, accomplishing the structural readjustment by the Six-Year National Construction Plan or by any other expansion-oriented fiscal policy will require in their course of action the fulfillment of certain adjustment functions. In retrospect, it is true that an excessive amount of savings is very much the same as a trade surplus, but that does not indicate that an increase in domestic demand will directly and automatically eliminate trade surplus. In a society like ours, which has had full employment for a long time, where there is no proof that would show that a government-invested import trend had exceeded domestic demand of other kinds, the most important method to force the trade surplus down would be to do it through changes in the relative prices, which means either through upward revaluation or allowing domestic commodity prices to rise. Upward revaluation or rise in domestic prices will both make exports and native products more costly and imports cheaper, will throttle exports and stimulate imports, and will indeed get the trade surplus down.

Examining the trend of the individual economic variables of the whole from this point of view, may be different from differentiating between the trends of the various individual variables. Industrial circles hope there will be no upward revaluation, the general public hopes there will be no increase in commodity prices, but if the exchange rate is not raised, and commodity prices are also not increased, an expansion-oriented financial policy will also not have the capability of forcing the trade surplus down, and it must be feared that the objective of the overall economic structural adjustment will in that case also remain beyond achievement. It is the same with private investments; if the government encourages privately invested production to be successful, investments will greatly increase, and spur on domestic demand to go up. If that is to be turned into a reduction of the trade surplus, it would still require that certain functions will have to be fulfilled. In a society with full employment, these functions will be effective only if undergoing upward revaluation or commodity price increases.

It is that in a survey of the whole, we must view the trend of each of the various individual viable under a different aspect. As for the trade surplus, the trade surplus in 1991 was particularly high, about 16 percent above the target set in the Six-Year National Construction Plan, which is unfavorable for the continued adjustment of the economic structure and should not be reason for delight, but should rather be seen as a warning message. If this message is not warning of possible pressure from outside the country, it is warning of the backwardness of country's adjustment process. As to investments, both government and nongovernment investment must be strengthened, but all must be clear-headed about their consequences. As to upward revaluation and commodity price increases, all we can do is choose the lesser of two evils.

There is no free lunch in the world. Economic readjustment of the whole is not possible without paying a price. If we don't want to pay the price, we must have the courage to accept the fact that adjustment targets cannot possibly be achieved. If we are determined to achieve the targets of economic adjustment of the whole, as outlined in the Six-Year National Construction Plan, we must have the courage to pay the price.

#### **On Root Cause of Political, Socio-Economic Disorder**

*92CM0353A Taipei TZULI WANPAO in Chinese  
13 Jun 92 p 14*

[Article by Lin Chu-shui: "Declare War on the Monster of Money Power!—On the Fundamental Cause of the Disorder in Constitutional Government, in Society and in the Economy"]

#### **[Text] Monied Politics Is the Source of Disorder**

##### **1.**

After the Kuomintang [KMT] won for the first time a general parliamentary election with the campaign slogans of "stability and prosperity," in six short months "instability" in terms of disorderly situations surrounding constitutional reform has occurred. There was the war of "garbage and cockroaches" between the two constitutional organs of the Legislative Yuan and the National Assembly. The National Assembly has expanded its power to become a monster in constitutional politics. There were pieced-together, hardly presentable constitution-amending proposals that did not even contain definite provisions on the mode of election for the president.

The unstable chaotic situation has not only occurred in constitutional reform, but also in political, social, and economic spheres: There were the government-led price hikes spearheaded by the hikes in public utility charges. While business conglomerates' real estate trading has led to a high vacant rate of buildings, rent has stayed at a high level, thus even making college students resort to group protest. In a scandal of collusion between government officials and businessmen, mass transit authorities in Taipei accepted construction costs twice the cost in Japan, and thereby became the highest costs in the world. There is social injustice in terms of the growing gap between the rich and the poor. Even worse is that while ordinary people are having increasing difficulties in their life, the government has directed its focus on increasing taxes on small shop owners and other low-and medium-income people. There is even the practice, never heard of anywhere, of requiring taxi drivers and beetlenut vendors to give receipts. Tragedies of multiple deaths from vehicle or building fires related to problems of public safety inspections happened repeatedly. There have been bloody confrontations between residents and the police due to deterioration of the quality of life and environmental pollution. . . . All these widespread disorderly situations have led to uncertainty, instability and injustice in the entire social life.

Against the background of the many disorderly situations, the only thing that is in accord with the slogans of "stability and prosperity" used by the KMT late last year is the situation of money-infested politics which has been growing steadily in strength and influence. One cannot but hear the widespread rumor that at the end of this year the KMT candidates will each spend at least 200 million dollars in their campaigns. This minimum sum would be an extraordinarily huge sum anywhere in the world!

#### **Collapse of the KMT's Bases**

##### **2.**

In fact, fundamentally speaking, all these endless intolerable disorderly situations have their roots in money-infested politics. Money-infested politics is the source of the disease, and all these disorderly situations are but the complications.

In terms of money politics, previously the world-famous case was that of Japan where the Liberal Democrats has been in power for a great many years. First because of the conservative nature of the Liberal Democrats as the representatives of the business conglomerates; second because of the corruption resulting from being in power for a long time; and third because of the lack of full modernization of the Japanese society (social modernization has not been completely synchronized with economic modernization) which thus retains the cultural structure of a feudal vassal system (one example is the Liberal Democrats' factional politics which is centered around personal ties instead of ideas), there have been repeated widely-noticed scandals of money politics. However, it is none other than Japan's Liberal Democrats that is the KMT's declared model in the party's efforts of adjustment, the adjustment that the KMT is being forced to make under international and domestic pressures for democratization!

Even under the watch of independent judiciary supervision, Japan's practice of money politics in which the Liberal Democrats are the main actors would still grow daily. In Taiwan, the judicial system itself is also almost completely involved in such practice, and is thus effectively an accomplice in the practice of money politics. As a result, the symptoms in this case would naturally be even worse, demonstrating "a recurring cancer"—an almost terminal disease.

Surely, such a disease did not take shape in one day.

### 3.

In a capitalist society, once business conglomerates become too vicious in their nature, the prevalence of practice of money politics becomes inevitable. While the KMT was on the Chinese mainland, the four big families of the "Chiangs, Sungs, Kungs, and Ch'ens" monopolized state power, thus forming a typical money power-based political group incorporating party, government and military officials and people from business conglomerates of a vicious nature. After the KMT retreated to Taiwan because of excessive corruption, for a time the business conglomerates, being cut off from their mainland roots, could not stir up waves. In addition, after "reform," the system, while remaining corrupt and authoritarian, could not be described as one of money politics. More appropriately, as people would dare to point out only now, it should be viewed as an "outsiders' regime"—a military colonial regime without social ties and social bases.

It is really a miracle that this outsiders' regime, having lost its ancestral homeland as well as those business conglomerates as its social bases, could have ruled Taiwan to this day. This miracle has been produced on the following bases:

(1) The 600,000 troops of the "foreign legion" that came to Taiwan have provided an overwhelming repressive force; (2) by confiscating Japanese monopoly-capitalist businesses constituting over 80 percent of the entire

industrial sector of Taiwan at the time and by then turning them into state-run or party-run businesses, the KMT acquired its economic base without forming social ties; (3) there was the U.S. aid during the Cold War; (4) the semi-feudalistic culture of the society made it easier to institute strong-man rule; and (5) the 28 February massacre thoroughly decimated the resistance forces.

In view of such political and social bases, the key aspects of the KMT's design for the political system were:

(1) Martial law; and (2) the system of dual feudalistic political elites: that the central government was monopolized by the non-Taiwanese elites and their children, with "chartered rights for various sectors" distributed among these people. At the same time, local politics proceeded on the basis of division of benefits among the local factions which would monopolize various illegitimate local benefits but could not interfere with central government affairs.

As the KMT did not have social ties in Taiwan, the politics was destined to be undemocratic. However, this was not entirely a bad thing. The good side of that situation was that, relatively, the KMT was not much burdened by social ties, and thus could maintain a degree of neutrality towards various social classes on policy matters (that is, the state was more independent). For example, while on the mainland, land reform was totally impossible, because the KMT membership included big landlords. As another example, although there was the "Reward for Investment Statute" giving preferential treatment to capitalists, the capitalists were not allowed to be too involved in politics (back then the Ts'ai family and the thirteen brothers were suppressed for just that reason). In addition, there were such balancing factors as a base of balanced urban and rural development and a system of universal education built up during the period of Japanese occupation. As a result, the economy of Taiwan enjoyed, for a period of time, the miracle of having continued high rate of growth leading to rapid accumulation of capital on the one hand and reducing the gap between the rich and the poor on the other hand. Taiwan thus became a society which had an authoritarian, and somewhat corrupt regime, but also enjoyed relative stability.

### 4.

Under the corrosive impact over time, the bases on which the KMT depended for maintaining a consolidated regime, and the results of the KMT's policies gradually fell apart:

(1) There are still over 400,000 troops, but they are no longer the "foreign legion"; thus it would be dangerous to really use them for suppression purposes (such as in the 28 February Incident). (2) State-run enterprises are not as efficient as other enterprises, and private capital is gaining strength rapidly. (3) There have been a series of diplomatic failures, and only weak external help is available. (4) Democratic forces in society are growing. (5) The second and third generations which did not

experience the 28 February Incident have entered the prime of their life and become the backbone of society.  
(6) There are bankruptcies in rural areas. . . .

All those changes have put pressure on the KMT: A regime which did not have, and did not need, social ties was forced to seek social ties and to form class alliances during the last few years of Chiang Ching-kuo's life. As a result, the new policies for ruling which were formulated during the last few years of Chiang Ching-kuo's life and inherited by the Li-Hao regime have been undergoing fast development. Hence the nice-sounding political slogans of the KMT:

**More political power to the indigenous people, and economic liberalization.**

The slogans are nice-sounding, but what is implied in the policies is a return to the old path of money politics based on alliances with those business conglomerates of a vicious nature. At the same time, the name of "Liberal Democrats" (using such a name is not a very clever move and can only hoodwink those who do not really know) is being used.

The contents of the policies are:

A. More power to the indigenous people means letting indigenous local factions and technocrats turn from being able only to be involved in local distribution of benefits and only to be political showpieces into being able to be involved in the distribution of benefits on a national scale at the locus of power at the center (even the president is a "Taiwanese"). At the same time, children of non-Taiwanese elites also deign to run in local elections, so as to participate in local politics and local distribution of benefits.

B. Economic liberalization means opening up sectors involving chartered rights such as those of banking and securities as well as state-run upstream monopoly sectors for money games to be played by local super-factions in alliance with business conglomerates and those representing party-controlled capital.

In this way, through electoral practices and the use of money, the two feudalistic elite groups, one at the center and the other at the local levels, have established connections between themselves, thus leading to the prevalent practice of money politics. Therefore, the so-called more power to the indigenous people and economic liberalization do not change much the basic feudalistic

and undemocratic characters of the political regime. The nice-sounding slogans are only one side of the KMT's usual practices in money politics. Moreover, as the KMT enjoys extensive possession of party-run businesses which even Japan's Liberal Democrats do not have (and which is also unique in the world), the combined effect is a kind of money politics which is even more dreadful than Japan's and should be called a monster of money power!

It was only after a round of rebirth-like re-reforms that the KMT changed the goal of the state from one of fighting on the mainland to regain a country and rebuild an empire into one based on concerns for Taiwan. But the unfortunate results have been that projects such as those of mass transit and Six-Year National Construction proceeded in the name of building Taiwan, but were in fact opportunities for engaging in money politics which allowed a small number of people in the ruling group to gain from trading in land at the expense of the people of Taiwan. What was being played was a game where the rich (the extremely rich) would be powerful, and where the powerful would get richer.

In such trading, votes were bought with hundreds of millions of dollars in elections. Power expanded on one matter after another in meetings. Frantic trading is going on with regard to such matters as customs duties, special privileges, shares, kickbacks, land, prices of goods, and taxes on ordinary people. People in politics are becoming more and more shameless. As a result, the gap between the rich and poor is rapidly growing. Everyone is money-oriented, and there is a growing tendency to give no regard to whether other people live or die. Taiwan has become an even greedier island. The political, social, and economic disorder, unique to Taiwan, is manifested in many ways.

## 5.

All people who cannot tolerate such disorder and injustice, including all workers, peasants, members of residential communities, members of the salaried class, and owners of small and medium-sized shops as well as small and medium-sized enterprises, now is the time to get united in many-sided efforts to bring down the monster of money power which makes gains at the expense of the people of Taiwan, to strive for the establishment of a just society! If we cannot fight effectively the power of money—a greedy and feudalistic monster, then the beautiful island of Taiwan will become even greedier and more unstable, or will even be destroyed.

**On Feasibility of Amending Basic Law**

*92CM0355A Hong Kong TA KUNG PAO in Chinese  
30 May 92 p 7*

[Article by Tsou Tsan-chi (6760 4732 1015): "A Discussion on Amending the Basic Law"]

[Excerpt] Recently the issue of whether or not the Basic Law can be amended before 1997 has made the citizens of Hong Kong dizzy. Because those in favor and those opposed stick to their views, it is no wonder that they feel somewhat at a loss as to how to proceed.

But for those with a firm legal grasp of the Basic Law or those who actively participated in its drafting or in the consultative process, they should have an ear for detail for the Basic Law and the Chinese Constitution, and should not speak without having done their homework. If they disregard what the constitution or the Basic Law expressly states, and still cut off meaningful discussion, giving only half the story, I am afraid this is tantamount to telling a bold-faced lie and will confuse public opinion.

How were the relevant articles of the Chinese Constitution and the Basic Law written? The 62nd Article of the Chinese Constitution says: Article 62—the National People's Congress [NPC] exercises the following functions and powers: 1) Amending the constitution; 2) supervising implementation of the constitution; and 3) drafting and amending criminal, civil, and national organization basic laws and other basic laws.

From this article it is evident that the NPC is the only body that has the power to amend the Basic Law; it is also the "highest organ of state power" (see Article 57 of the constitution). Whether or not the Basic Law is amended must be decided by the NPC, all other organs can only assist and cannot take the job into their own hands.

However, even though the NPC possesses official amendment power, when exercising this power, it still can handle things in keeping with appropriate "legal procedure." For example, the above described NPC power to "amend the constitution" is sure to require relying on the "procedure" of the constitution's Article 64, which requires approval by the Standing Committee of the NPC or more than one-fifth of NPC delegates, and passage by more than two-thirds of the full NPC membership.

In the world today there are sound constitutional laws, and most are sure to have strict regulations or guidelines on amendment procedures. Respecting and strictly protecting these procedures is an extremely important link in a constitutional system.

China's current constitution was drafted in 1982, and at that time there was still no Basic Law for Hong Kong. Because the Hong Kong Special Administrative Region will be pursuing capitalism, in complete contrast to the mainland's socialist system, the relevant procedures for

amending the Basic Law are not directly stipulated in the constitution, and looking at what the Basic Law itself restricts, it should be noted that the Basic Law is self-sufficient; making a clear dividing line between the Basic Law and the legal system of the mainland, and is completely in accord with the spirit of "one country, two systems."

Though the Basic Law contains stipulations on amendment procedures, does not the NPC also have some say in handling amendment procedures relating to the Basic Law? If the Basic Law is the child, while the constitution is the mother, must the procedural stipulations contained in the child also be accepted? Are there no contradictions between the two?

The answer is to look at whether or not the procedures stipulated in the Basic Law have a constitutional basis. If they do, then those Basic Law procedures have legal force, and one must accept that they are recognized by the constitution. The powers bestowed by the constitution, along with the procedures for exercising this power in the required time then complement each other and are not mutually contradictory.

For example, the constitution's Article 62 described above bestows the power of amending the constitution on the NPC; but at the same time, Article 62 also stipulates the necessary procedure for exercising this power, and between these two there is no contradiction. Therefore if the procedures for amending the Basic Law are constitutionally based, then amending the Basic Law certainly should be done in accordance with this stipulation.

In this aspect what is the constitutional basis of the Basic Law?

Article 78 of the Chinese Constitution states: "The procedures for the organization and work of the NPC and the NPC Standing Committee are stipulated by law." In addition, Article 72 of the Chinese Constitution also has this stipulation: "Members of the NPC and the NPC Standing Committee have the power in accordance with legally stipulated procedures to separately propose motions within the scope of authority of the NPC and the NPC Standing Committee."

In accordance with these two articles, the legal power of amendment bestowed by the Chinese Constitution on the NPC is within the limitations of the constitution, and cannot be arbitrarily used. Since the constitution stipulates that the working "procedures" of the NPC are "legally stipulated," the procedures that are legally stipulated, not only have no contradiction with the constitution, but also implement the provisions of the constitution, and are in accordance with the spirit of the constitution.

When it comes to the Basic Law itself, it is also a document formulated by the NPC in accordance with Article 31 of the Chinese Constitution. In fact, it is based on the consistent demands of many Hong Kong people at

## HONG KONG, MACAO

the time, who wanted the guarantee of the Basic Law, and therefore the NPC, at the same time as it published the Basic Law, also passed a resolution, affirming that the Basic Law was formulated "based" on the Chinese Constitution, and "is in accordance with the Constitution." Therefore, because the NPC Standing Committee has the power to "interpret the Constitution, and supervise its implementation," and the NPC in addition to having the authority to "supervise implementation of the Constitution," also has the power to "alter or revoke inappropriate resolutions of the NPC Standing Committee," in the past all queries related to the constitutional position of the Basic Law, arrive at this final point. At present, the suggestions of Hong Kong and Britain or their spokesmen on "amending" the Basic Law also cannot avoid first starting from a recognition of the Basic Law's unquestionable legal position. Otherwise, these suggestions basically have no starting point. "Since this is not acknowledged, how can amendments be made?"

When encountering this question, since the Basic Law has legal effect, can those amendment procedure stipulations in it be legally implemented before 1997? For the answer, let us look at Article 159 of the Basic Law: "The power to amend this law rests with the NPC.....Before a motion to amend this law is placed on the NPC agenda, the Hong Kong SAR Basic Law Committee must study it and offer suggestions."

As for the character of the "Basic Law Committee," one can refer to the resolution of the NPC passed at the same time the Basic Law was promulgated: "When the People's Republic of China Hong Kong Special Administrative Region Basic Law goes into effect, the National People's Congress Standing Committee will establish the Hong Kong Special Administrative Region Basic Law Committee." Therefore, it is clear that before 1997, Hong Kong is not a "Special Administrative Region," and there will be no "Basic Law Committee." For this reason, in reality before 1997 the Basic Law cannot be amended according to the procedures given in the Basic Law. If some people demand that the NPC completely disregard the stipulations of the Basic Law, and on its own make amendments, this will conflict with Articles 72 and 78 of the Chinese Constitution, and not only be against the law, but also in violation of the Basic Law.

Taking a look at constitutional articles throughout the world, practically all internally either directly or indirectly stipulate the procedure for amendment to preserve

the guard the sanctity of the constitution. This procedure normally is viewed by authoritative scholars as binding and requiring compliance.

If this concept is abandoned, then there is only the road of overturning the constitution, and using the primitive method of "political power from the barrel of a gun, and using political power to formulate a constitution." But isn't this a big step backward in developing a constitutional system?

If some do not personally like things (for example, the Court of Final Appeal agreement), they shout loudly about the need to comply with the Basic Law, but when it comes to things that are of benefit to them, they give no regard to the Basic Law, one must ask them whether this kind of calculation is "in the spirit of rule by law!"

Some people say that because they esteem the Basic Law "therefore they demand it be amended." With a little careful analysis, it can be shown that this response is mistaken. This is because the crux of this problem lies not in the description of a person's attitude towards the Basic Law, but in whether or not his actual actions are objectively in accord with the legal procedures of the Basic Law. If they are not in accord, then even though many words are spoken, or "I say that you do not understand rule by law" type of empty statements are made, there will be no change in the objective facts.

As for one radical group leader, when he avowed the need for fighting for "revising the Basic Law," he unexpectedly also put forth the view that "the stipulations on the seats for the first Legislative Council are not subordinate to the Basic Law, therefore the NPC at any time has the authority to amend them," causing people great surprise. First, if an amendment by the NPC did not "increase" the number of directly elected seats, but "reduced" them, the position of this gentleman would probably change. Second, the scope of Hong Kong's Basic Law includes Appendix 1, Appendix 2, and Appendix 3. This is the bare minimum knowledge required to discuss the Basic Law. In Appendix 2, it expressly extends that the "first legislature will be produced by a resolution of the NPC regarding the method for constituting the Hong Kong SAR's first executive and legislative organs." This being the case, if later on the NPC wants to pass a new resolution, to change the original arrangements, and the Basic Law wants to abandon the old and follow the new, how will it be possible not to make appropriate amendments? This is clearly shallow logic, and does it not take legal experts to be able to understand it? [passage omitted]

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